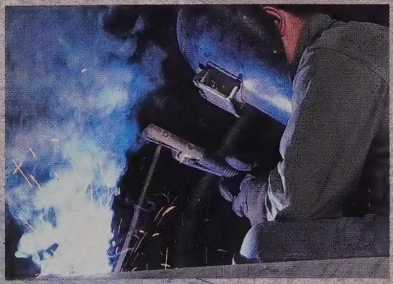
1980 ANNUAL REPORT

INTER-CITY GAS CORPORATION

EXPLORATION AND PRODUCTION

LIQUID GAS

UTILITIES



MANUFACTURED PRODUCTS

Contents

Inter-City Gas Corporation is a wholly integrated company in the energy field, involved in exploration and production of oil and gas, marketing and distribution of gas and gas liquids, and manufacturing and merchandising of heating and related energy equipment. The Company's goal is to expand its existing operations through co-ordinated growth strategies and continued aggressive attitudes to profitable acquisitions.

Our cover is a schematic geological cross-section representing ICG's Lakeland well at Heart Lake, Alberta. The well is a gas entrapment in sandstone, drilled to a depth of 972 m (3188 ft.) and completed in January, 1981.

The layers are symbolic of ICG's four operating divisions, and of the Company's vertical integration throughout the energy industry. Linking all of ICG's divisions, represented on our cover by the drill stem is "the energy flow," which is the continuum of energy-related activities in which ICG has interests: exploration—production—transportation—distribution—marketing—manufacturing and merchandising.

INTER-CITY GAS CORPORATION HIGHLIGHTS

	1980	1979	1978
Financial			
Operating revenue ($000)	417,178	339,192	305,513
Operating profit ($000)	56,596	43,319	33,736
Net income ($000)	18,342	12,434	7,309
Net income per common share			
—from continuing operations	$1.40	$1.37	$1.14
—after discontinued business and extraordinary items	$1.42	$1.43	$1.21
Dividends per common share	$0.32	$0.31	$0.28
Capital expenditures ($000)	66,018	46,804	31,699
Average number of common shares outstanding (thousands)	11,816	7,571	4,944
Operating			
*Exploration and Production Division			
—Natural gas—Mcf after royalties	9,792,000	9,937,000	9,341,000
—Crude oil—barrels after royalties	628,000	595,000	638,000
Liquid Gas Division			
—Propane—thousand gallons	195,419	188,540	176,163
—Gasoline and other—thousand gallons	25,352	30,959	45,558
Utilities Division			
—Natural gas—Mcf	44,090,700	47,117,500	45,321,400
—Electricity—Kwh	74,139,200	70,402,600	66,888,200
Manufactured Products Division			
—Gas furnaces—units	29,126	25,346	20,528
—Other—units	9,870	10,811	10,407
—Steel pipe—thousand lbs.	41,337	31,528	27,202

**Prior years' amounts include Canadian Homestead operations*

	1980	1979	1978
Net Proved Reserves—after royalties			
**Natural gas—Mcf	787,276,000	791,412,000	857,884,000
Crude oil—barrels	9,865,000	9,829,000	7,899,000

***Includes reserves attributable to the Arctic Islands.*

REPORT TO SHAREHOLDERS

Robert G. Graham,
President and Chief Executive Officer.

The year 1980 was an important one for Inter-City Gas Corporation with 23% increase in revenues and 51% increase in net income from continuing operations. It was also the year in which Inter-City Gas Corporation was formed through the amalgamation of Inter-City Gas Limited and Canadian Homestead Oils Limited which was previously 49% owned.

The amalgamation resulted in the total number of common shares outstanding increasing by 69%, excluding shares held by subsidiary companies. Canadian Homestead had valuable assets in the form of oil and gas reserves rather than assets producing current income, with the effect that the net income per common share from continuing operations for 1980 on 11,816,000 weighted average number of shares outstanding was $1.40 compared with the $1.37 earned per common share on the 7,571,000 weighted average number of shares outstanding in 1979.

Revenues from continuing businesses in 1980 reached $417 million compared to $339 million in 1979, after excluding U.S. Petroleum operations which were sold early in the year.

Some of the year's highlights, which are discussed in greater detail in this report, include:

- The integration of the exploration activities of ICG and Canadian Homestead into a substantially larger exploration operation, with interests in over 14 million gross acres and reserves of 787.3 billion cu. ft. of natural gas and 9.9 million barrels of oil.
- Ongoing efforts by our companies seeking distribution rights for natural gas in the major new markets of Quebec and Atlantic Canada. Subsequently, in March 1981, it was announced that Gaz Inter-Cité Québec, Inc. would be awarded a 30 year exclusive franchise to distribute natural gas in 80 communities in the province of Quebec including the capital, Quebec City. We will hold a 49% common share interest in Gaz Inter-Cité Québec and Société Québécoise D'Initiatives Pétrolières (SOQUIP), a Quebec crown corporation, will acquire a similar interest. Another Quebec crown corporation will own the remaining 2%.
- The formation of the Liquid Gas Division (formerly Propane and Petroleum Products) to include, in addition to our traditional propane distribution, ICG Auto-Propane—a comprehensive program for the conversion and fueling of commercial fleets, and ICG Industrial Gas—a co-ordinated marketing thrust into the bulk and cylinder merchant gas market.

Our 25 year history has seen the company grow from a small regional natural gas utility to a major Canadian Corporation with integrated interests in the energy field. Our goal of diversification within the energy spectrum has become a reality, and we are well positioned to take advantage of changing conditions and new marketing opportunities. The thrust towards energy self-sufficiency in Canada and the United States, will be a major influence on energy marketing in the 1980's.

We expect to continue our record of earnings growth both through expansion and increased penetration in markets in which we have existing interests, together with a continuing aggressive attitude towards profitable acquisitions within the energy field.

Renewed emphasis will be placed on productivity, operating efficiency and inventory controls in order to reduce the impact of inflation on operating costs with the objective of improving profit margins.

During 1980, we commenced development of a financing plan which would address the present liquidity position and provide funds for future expansion. This plan is virtually complete and will provide a long-term credit facility to the Company based on the security of its oil and gas properties.

A major factor in our business outlook is the National Energy Program announced by the Government of Canada in late 1980. While there has been considerable attention given to the negative impact of the Program on exploration and production, we are forecasting a favourable net effect on our Company in the long term. The introduction of various programs and incentives aimed at stimulating a shift of energy consumption away from oil, will benefit ICG in three important areas of business:

- Natural Gas—the incentives will accelerate conversions to natural gas in existing and new distribution areas, and allow for the expansion of such areas;
- Propane—will displace heating oil in those areas not serviced by natural gas and may be used to pre-develop new service areas prior to the arrival of natural gas. ICG Auto-Propane, our program geared to the use of propane in transportation, will also benefit from incentives under the Program;
- Manufacturing—conversion from heating oil to natural gas and propane will substantially increase the demand for conversion burners and new heating equipment from our three manufacturing plants.

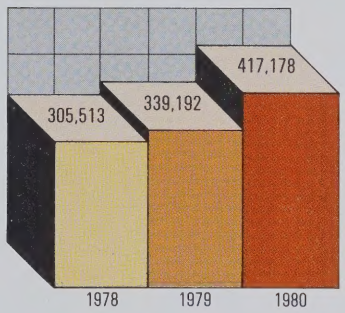
Essential to the fulfilment of our strategy is the management structure of the Company. In 1980, we added to the strength of our management with the following new executive appointments:

D.S. ROGERS, Executive Vice-President & Chief Operating Officer
R.C. SIEGFRIED, Group Vice-President, Exploration & Production
W. ZBOROLUK, Group Vice-President, Liquid Gas
H.C. COPPEN, Vice-President, Marketing
E.D. WARKENTIN, Vice-President, Human Relations

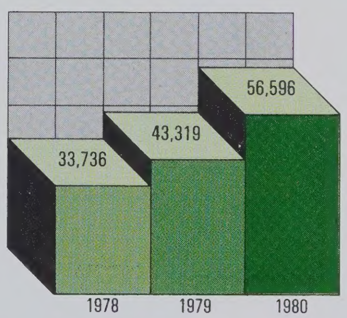
Inter-City Gas Corporation enters 1981 with strong momentum. The Company is poised to take advantage of its opportunities and is flexible enough to adjust to changes. We are financially capable of achieving our growth goals and we have a particularly strong base of over 2,500 committed employees throughout the organization on whom we rely to contribute as importantly in the future as they have in the past.

President and Chief Executive Officer

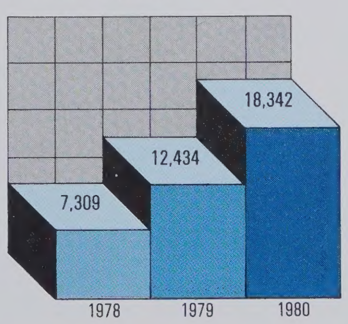
OPERATING REVENUE ($000)



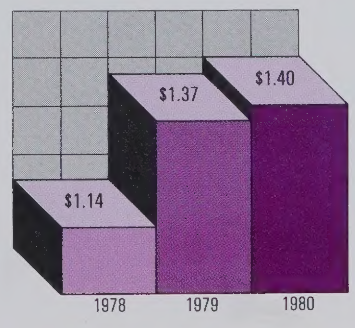
OPERATING PROFIT ($000)



NET INCOME ($000)



NET INCOME PER COMMON SHARE
(from continuing operations)



BUSINESS SEGMENTS

EXPLORATION AND PRODUCTION

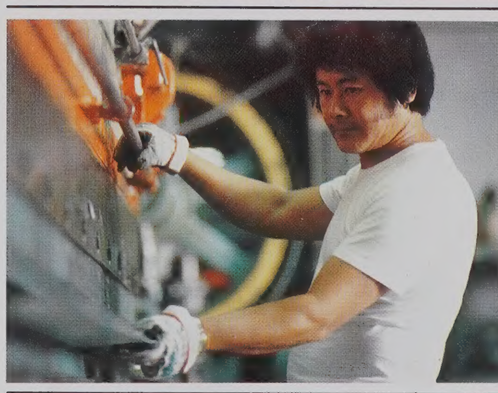
The Company participates in exploration and development drilling for, and the production of, crude oil and natural gas in Canada and the United States, and holds working and royalty interests in producing oil and gas wells. The primary areas of activity are the provinces of Alberta and British Columbia in Canada and the states of Texas and Louisiana (and adjacent offshore areas of the gulf coast), North Dakota and Montana in the United States. With the amalgamation in 1980 of Canadian Homestead Oils Limited, the Company now has a significant acreage position in Western Canada and the Arctic Islands.

LIQUID GAS

The Company distributes petroleum products, primarily propane, gasoline and related merchandise through 142 company-owned branches and dealer outlets in all regions of Canada except the Maritimes. The Company commands close to 40% of the retail propane market in Canada. In 1980, the Company entered into the transportation fuel market by providing vehicle conversion services and supplying propane to fleet vehicle operators. In addition, construction of an air separation plant commenced in 1980 to ensure a secure source of supply and to increase our growth potential in the industrial gas market. The industrial gases are marketed through our existing propane distribution system.

UTILITIES

The Company operates natural gas utility systems serving 87,828 customers in the provinces of Alberta, British Columbia, Manitoba and Ontario in Canada and the state of Minnesota in the United States and is the franchise distributor of electricity serving 3,154 customers in the city of Yellowknife in the Northwest Territories. The Company has a 49% interest in Gaz Inter-Cité Québec Inc. which was recently awarded rights covering a thirty year period to distribute natural gas in certain unserved areas in the province of Quebec. The area covered by the franchise has an estimated potential of 220,000 customers. The Company also has interests in companies pursuing similar rights in Atlantic Canada and British Columbia.



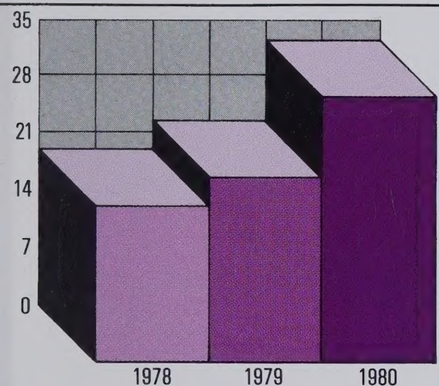
MANUFACTURED PRODUCTS

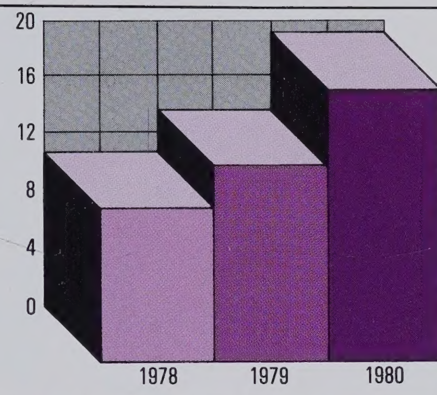
In Canada, the Company manufactures and distributes residential, commercial and industrial heating equipment and domestic water softening equipment as well as distributing complementary products made by other manufacturers. With the acquisition of the assets of Les Industries Barriére in January 1981, manufacturing is carried out in three locations, Montreal, St. Catharines and Winnipeg. Products are sold through 10 wholesale outlets across Canada. In the United States, the Company manufactures large diameter and corrugated steel pipe in Denver, Colorado. The primary market area for these products is Colorado and surrounding states.

"Our goal of diversification within the energy spectrum has become a reality, and we are well positioned to take advantage of changing conditions and new marketing opportunities."

Don Rogers, Executive Vice-President and Chief Operating Officer.

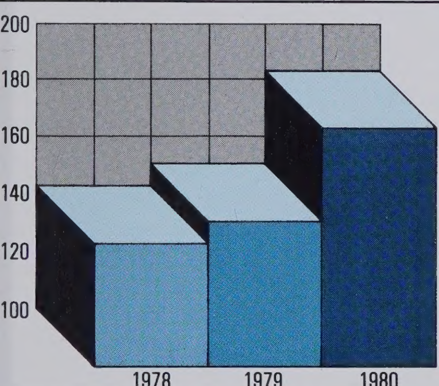
Operating Revenue (in millions of dollars) **Operating Profit**

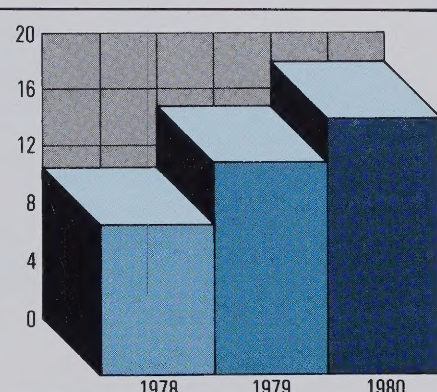




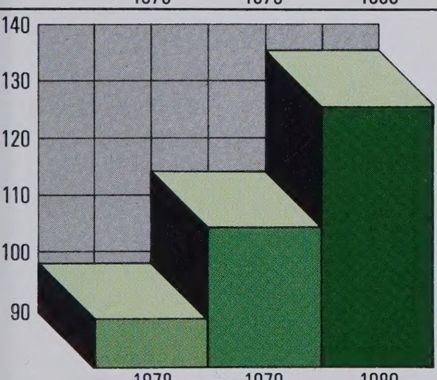
HIGHLIGHTS

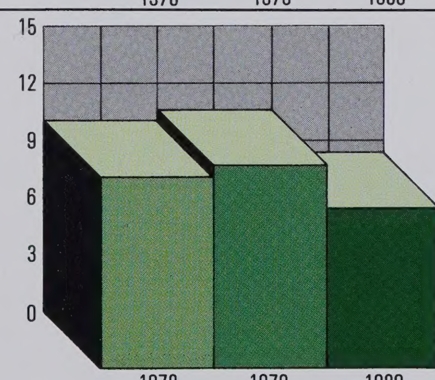
	1980
	($000)
Operating revenue	33,127
Operating profit	19,200
Capital expenditures	33,791
Average net daily production	
Natural gas—Mcf	26,827
Crude oil—Bbls.	1,720



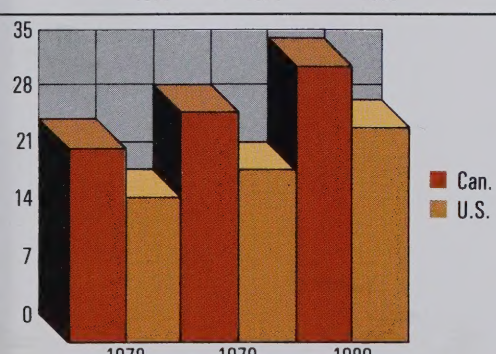


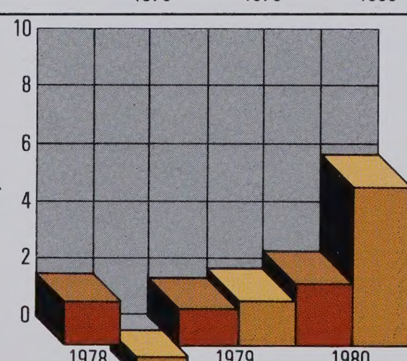
	1980
	($000)
Operating revenue	184,586
Operating profit	18,041
Capital expenditures	18,144
Volumes—thousands of gallons	
Propane	195,419
Gasoline and other	25,352



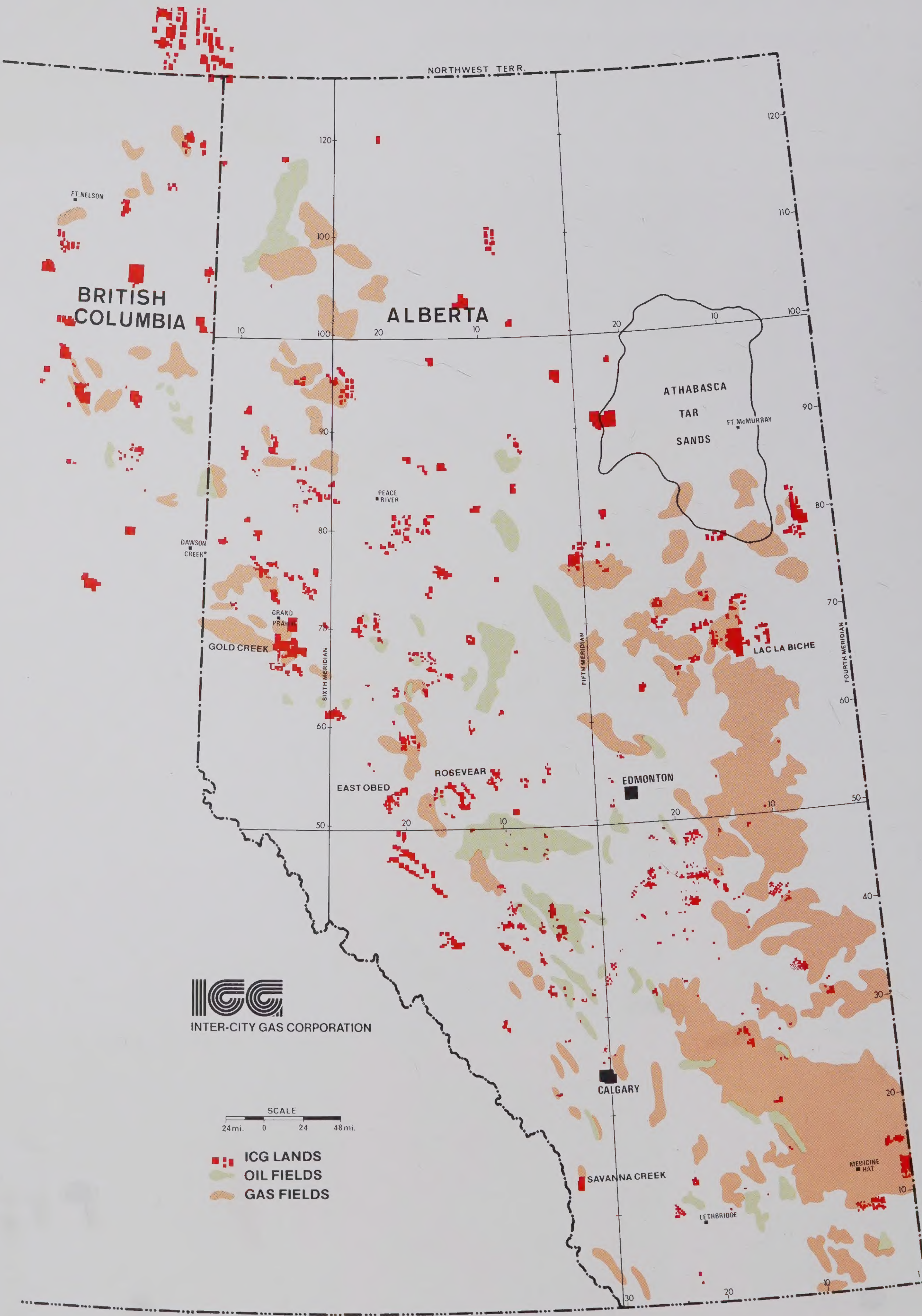


	1980
	($000)
Operating revenue	135,536
Operating profit	8,650
Capital expenditures	11,170
Volumes	
Natural gas—Mcf	44,090,700
Electricity—Kwh	74,139,200





	Can. 1980	U.S. 1980
	($000)	($000)
Operating revenue	34,181	26,345
Operating profit	2,076	5,845
Capital expenditures	540	1,340
Volumes		
Gas furnaces—units	29,126	
Steel pipe—thousand lbs.		41,337


NORTHWEST TERR.
BRITISH COLUMBIA
ALBERTA
FT NELSON
DAWSON CREEK
GRAND PRAIRIE
GOLD CREEK
PEACE RIVER
ATHABASCA TAR SANDS
FT McMURRAY
LAC LA BICHE
SIXTH MERIDIAN
FIFTH MERIDIAN
FOURTH MERIDIAN
ROSEVEAR
EAST OBED
EDMONTON
CALGARY
SAVANNA CREEK
LETHBRIDGE
MEDICINE HAT
INTER-CITY GAS CORPORATION
SCALE
24 mi. 0 24 48 mi.
ICG LANDS
OIL FIELDS
GAS FIELDS

"We will capitalize on our new land position by exploration across a broad range of interests, searching for oil prospects, and for deeper and more prolific gas reserves while continuing our shallow gas program to optimize cash flow."

Dick Siegfried, Group Vice-President.

EXPLORATION AND PRODUCTION

ICG has a 30% interest in the Rosevear gas plant which came on stream in 1980.

Operating Company and Management

ICG EXPLORATION LTD.
W. J. Smart
Vice-President, Operations

R. J. H. Thompson
Vice-President, Controller

The amalgamation of Inter-City Gas Limited with Canadian Homestead Oils Limited in 1980 substantially changed the size and scope of our exploration operation. The Company now holds over 14 million gross acres primarily in Western Canada (3.25 million gross acres) and the Arctic Islands (6.7 million gross acres). This acreage position in geologically promising areas of the sedimentary basins of Canada represents the basis on which ICG's future exploration strategy will be built.

In the past, ICG has concentrated primarily on low risk areas, basically shallow gas exploration in Alberta, where by the end of 1979 over 100 Bcf of proven deliverable natural gas reserves has been developed. We will capitalize on our new land position by exploration across a broad range of interests, searching for oil prospects particularly in Southern Alberta, and for deeper and more prolific gas reserves while continuing our shallow gas program to optimize cash flow.

Geophysicists and geologists work side by side in ICG's exploration offices in Calgary.

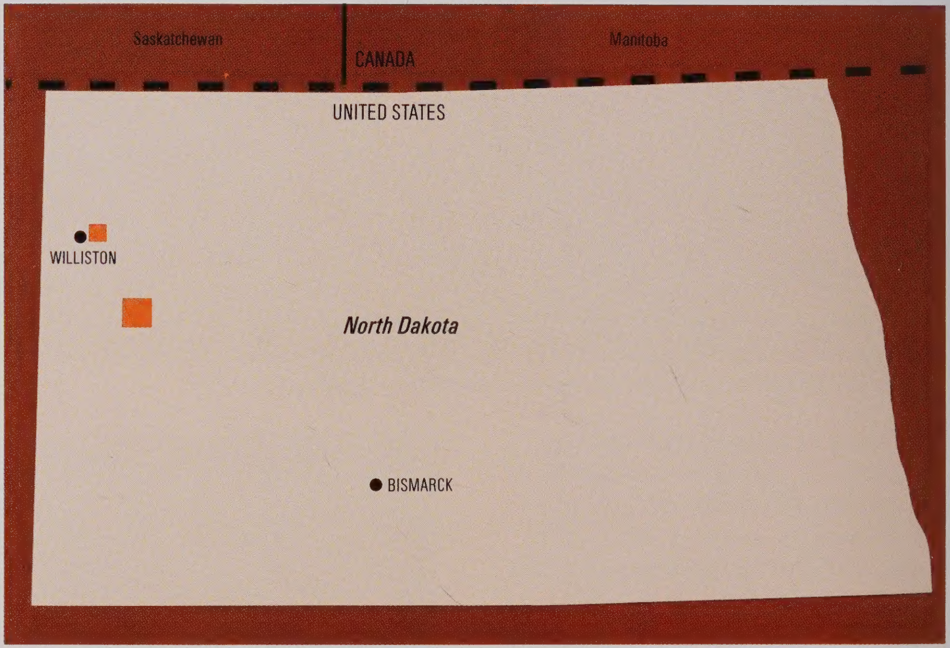
We are active in the United States in Texas and in the Williston Basin of North Dakota. While reserves to be found in the United States are generally smaller than in Canada, they are immediately marketable at higher prices and at drilling, operating and royalty costs lower than in Canada. The benefits of immediate cash flow require that we undertake these drilling prospects in our 1981 activities.

North Dakota

The Company participated in three wildcat wells in the Williston Basin of North Dakota. Two of the wells are dry and one well, the Adobe Signalness 24-2 is an indicated Madison oil well, capable of producing 40 barrels of oil per day. Your Company's interest is 30%.

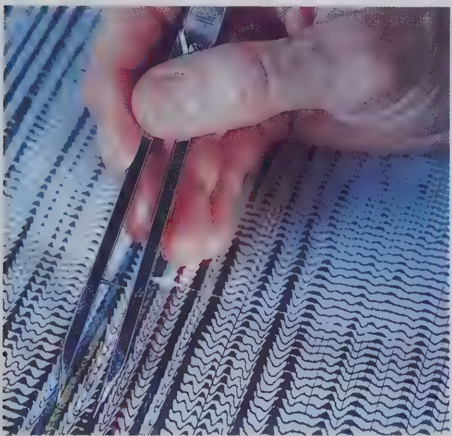
As many as ten wildcats are contemplated in the Williston Basin during 1981.

Area of Drilling Activity.



	Natural gas (million cu. ft.)		*Crude oil and condensate (thousands of bbls.)*
	Excluding Arctic Islands	*Arctic Islands*	
Proved reserves—January 1	106,399	—	2,061
Acquisition of Canadian Homestead	159,213	525,800	7,768
Revisions to estimates	(20,138)	—	1,136
Extensions, discoveries and additions	27,701	—	578
Production	(9,792)	—	(628)
Sale of properties	(1,907)	—	(1,050)
Proved reserves—December 31	261,476	525,800	9,865

During the year we added significantly to our technical strength with the hiring of several more highly qualified geophysicists and geologists. The company is now using the most current seismic equipment and interpretation techniques in its search for new hydrocarbon reserves, and we plan to increase our seismic program substantially in the future.

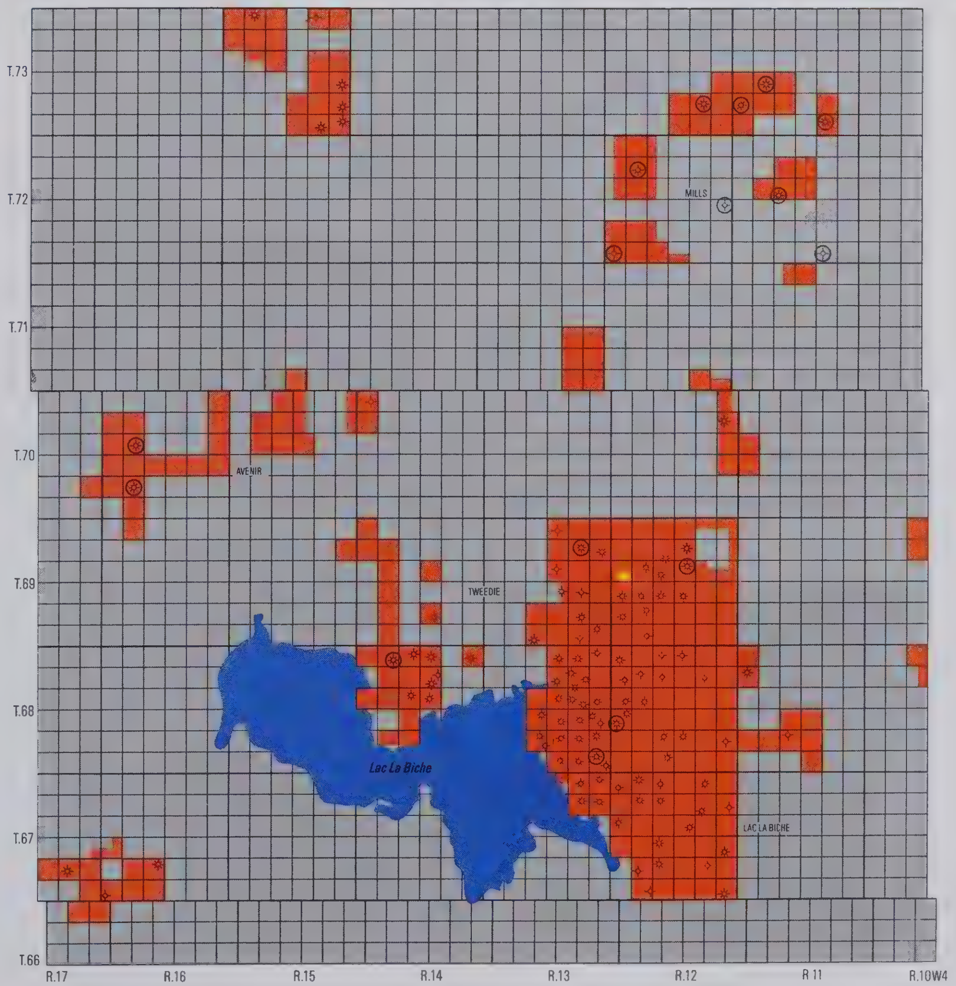


Seismic analysis.

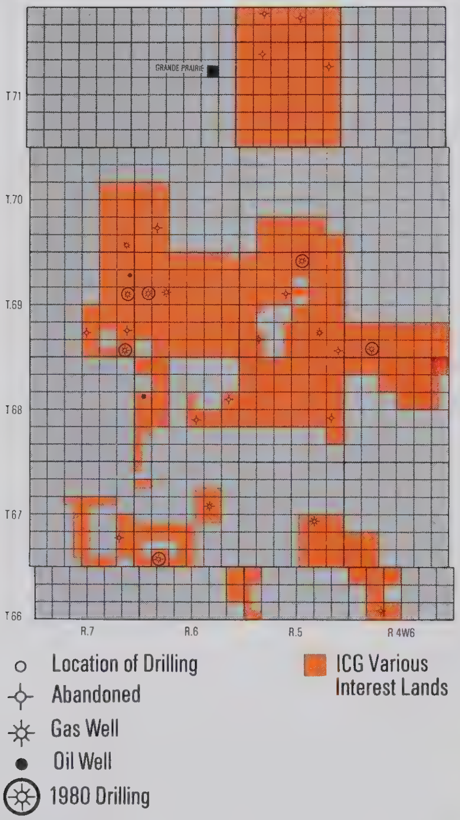
Lac La Biche-Mills-Tweedie-Avenir Area

Your Company participated in 16 wells in the subject area. Five wells were drilled in the general Tweedie area, where four of the five wells were potential Cretaceous and Grosmont gas wells. The gas potential from these wells will be processed in the Tweedie Plant and will add to our reserves, as well as maintain deliverability at the Plant site. One of the development wells has opened up an additional five locations, which will be drilled during 1981. Your Company's interest in these wells range from 32% to 64%.

Eleven additional wells were drilled in the Mills-Avenir area, nine wells were potential Colony wells with good deliverability. ICG's net interest will range from 23% to 50%. These lands were earned through a Farmout Agreement. At least five additional wells will be drilled during the 1981 season.



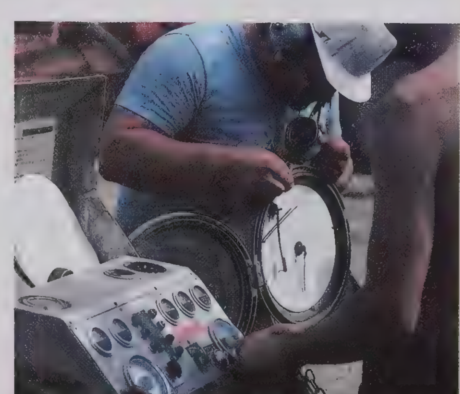
Abandoned
Gas Well
1980 Drilling
1980 Abandoned
ICG GAS PLANT
ICG Various Interest Lands



Gold Creek

ICG retains various land interests in the area, ranging from 2.92% to 20%, in a total of 166,240 gross acres. The Company participated in six wells, four of which were completed as gas wells in Cretaceous and two in Devonian formations. Some of these wells were significant discoveries.

This active exploration program will continue through 1981 and will include a large seismic program, five additional wells and land acquisition.



Recording equipment during the hydraulic fracture treatment of a well.

ICG has recently had an independent evaluation completed, as of December 31, 1980, of its net proven developed and undeveloped reserves. Net gas reserves of 787.3 Bcf of gas are attributable to the Company, of which 251.4 Bcf is located in Western Canada, 525.8 Bcf is in the Arctic Islands and 10.1 Bcf is in the United States. Crude oil and natural gas liquids reserves amount to 9.9 million net barrels of which 9.1 million net barrels are in Canada, and the balance in the U.S.

On a combined basis, production of natural gas during the year was down 2.2% on a daily basis to 26.8 MMcf. This marginal decrease was due to reduced contract volume nominations, which would have been more than offset if the on stream target dates had been met for Kaybob and Botha Chinchaga. Oil production at 1720 net barrels per day increased marginally over 1979 from retained properties.

Revenues increased by $7.8 million over 1979 primarily due to price increases of natural gas and crude oil. During 1980, there were three separate natural gas price increases in both the Toronto City Gate price and in export prices.

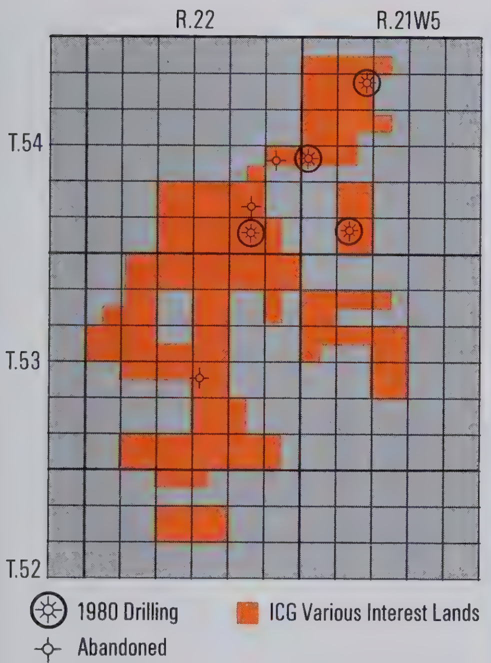
During the year, ICG participated in the drilling of 146 wells compared to 118 in 1979. Of these, 92 were wildcat with a success ratio of 65%, and 54 development with a success ratio of 87%. This level of activity will be further increased in 1981. In the first two months of 1981 we have participated in 47 wells for a 60% success ratio.

Capital expenditures in 1981 have been budgeted to increase 60% to about $50 million from $34 million in 1980. Of this, 85% has been identified for exploration in Canada, and the balance in the U.S.

Several areas in which the Company has active interests are described on these pages and represent a broad cross-section of the overall exploration program currently underway.

Gross (Net) Wells Drilled	1980		1979
	Gross	Net	
Oil	18	(2.3)	32
Gas	89	(29.1)	48
D & A	39	(7.8)	38
TOTAL DRILLED	146	(39.2)	118

Land	Gross Acres	Net Acres
Alberta	2,427,060	828,208
British Columbia	508,560	114,780
Saskatchewan	321,892	43,960
Northwest Territories	470,585	22,320
Arctic Islands	3,999,305	414,560
Arctic Islands (applied for but not issued)	2,704,105	2,704,105
Beaufort Sea	66,553	11,315
Newfoundland	11,847	8,888
Hudson Bay	3,526,903	737,070
United States	34,706	6,334
North Sea	50,778	427
TOTAL	14,122,294	4,891,967



East Obed

Situated thirty miles west of Edson, this area was a focal point for an aggressive exploration program in which ICG interests range from 5 to 25 percent. 1980 activity in this area included the drilling of four wildcat wells. In addition, ICG has a 10 percent interest in the acquisition of a 10,560 acre gas license.

In the near future the company plans participation in six additional exploratory wells, half of which will drill to 10,000 feet. An extensive seismic program is planned to evaluate newly acquired lands which are prospective for pinnacle D-3 reefs as well as stratigraphic Cretaceous sand traps.

Texas Joint Ventures

The Company participated in nine wells during 1980, in the State of Texas. Five were completed as development oil wells and four wildcats were dry and abandoned. ICG has entered into a joint venture agreement for the exploration and development of petroleum hydrocarbons in the east, south and west portions of Texas. Seismic and acreage was acquired in 1980 and as many as eight additional wildcats are anticipated in 1981. ICG's working interests varies from 10% to 20.625%.

Testing a gas well in the Savanna Creek area of Alberta.

Left: Seismic crew drilling shot-holes in the Alberta foothills.

LIQUID GAS

1980 has been a year of exciting change in our Liquid Gas operations. While results from our "traditional" propane business have continued to provide us with modest growth and satisfactory returns, we have established a foothold in two new markets which offer the prospect of significant growth in the future:

- ICG Auto-Propane—a comprehensive program geared at converting fleet vehicles to the use of propane, launched late in 1980.
- ICG Industrial Gas—a business in which we utilize our established cylinder gas handling capability, supported by a qualified, technical staff group dedicated to marketing of industrial gas products.

In our basic business of distribution and marketing of propane which accounts for 65% of our Liquid Gas revenues, we achieved steady volume growth with a 2.7% increase in gallonage over 1979. Significantly higher average selling prices (from 50.6¢/gallon in 1979 to 60.9¢/gallon in 1980) increased propane revenues by 31.7% while revenues from our continuing operations in gasoline and light oils, merchandise and other sales increased by 25.2%.

Revenues and profits derived from merchandise sales increased substantially during the year, strongly influenced by sales of welding equipment related to our industrial gas business. We expect the growth to continue, both in welding equipment and in carburetion equipment and other merchandise in our ICG Auto-Propane operation.

ICG's propane is put to every imaginable use — even to fuel a glass blower's furnace.

"Propane is expected to become even more competitively attractive to consumers and business, not only as a fuel in large surplus in Canada today, but also as its price advantage over fuel oil increases."

Bill Zboroluk, Group Vice-President.

The future for propane is bright as a replacement fuel for imported oil.

Operating profit increased to $18.0 million in 1980, largely accounted for by improved gross profits on propane and gasoline. Capital expenditures at $18.1 million were up from $11.4 million primarily as a result of expenditures in 1980 on the construction of a new air separation plant in Calgary and other equipment in support of our entry into the industrial gas market.

The increase in our propane volumes over the previous year was the result of significant volume increase in our eastern markets offset by declines in Western Canada where our business is weather-sensitive, and where we experienced generally warmer than normal weather patterns. It continues to be our goal to develop new year-round volume through increased penetration in the commercial and industrial sectors.

The outlook for our propane business has improved as a result of the federal government's National Energy Program, which introduced incentives to consumers and distributors to stimulate the displacement of imported oil by natural gas and propane. Specifically, we expect this improvement to occur in two areas:

- Predevelopment opportunities for propane in markets which will eventually be supplied with natural gas; and
- Increased propane penetration in rural markets outside present and proposed natural gas distribution systems.

Propane is expected to become even more competitively attractive to consumers and business, not only as a fuel in large surplus in Canada today, but also as its price advantage over fuel oil increases.

Operating Companies and Management

ICG CANADIAN PROPANE LTD.
I.C.G. GASBEC INC.
BLUE FLAME PROPANE LTD.
R. W. Dunbar
Vice-President, Controller
J. L. Pinault
Vice-President, Eastern Region
J. Schaffer
Vice-President, Western Region

ICG INDUSTRIAL GAS LTD.
W. J. F. Sim
Vice-President

ICG INDUSTRIAL GAS

In 1980 we continued our planned growth into the Industrial gas market. We started in this business in 1979 distributing gases purchased from one of the major suppliers in Canada. Cylinders of gas were marketed through selected branches within the existing propane distribution system, at very low incremental cost. As this method of supply limited our growth into the business, in 1980 we undertook to become producer as well as marketer of all atmospheric industrial and fuel gases, and also to market welding supplies on a broad basis across Canada.

With the expansion of our product line on a selective basis into the majority of the 142 propane outlets across Canada, our sales are expected to increase dramatically in 1981. Construction of an $8,000,000 air separation plant is under way in Alberta to serve the petroleum, petrochemical and energy-related businesses, and will ensure that products supply does not curtail our growth. Sales to industrial customers in Alberta will account for the bulk of the plant's production capacity of nitrogen on start-up in the last quarter of 1981. The total production capability of this facility (121 tons/day) will allow exchanges to be made with producers in Eastern Canada, giving us product supply in all major market areas. Competition in this market is intense, but we are confident that the application of industrial gases to better utilize energy and fossil fuels, to improve product qualities and production levels, and the demand in environmental improvement systems allows for sustained market growth.

While our entry into the industrial gas market is considerably enhanced by the large cylinder gas handling capacity of our propane operation, ICG Industrial Gas has recruited its own specialized team of technical and marketing professionals to develop our business potential.

ICG supplies gas and equipment to the welding trade across Canada

Transfill facilities are already operational at ICG's air separation plant in Calgary.

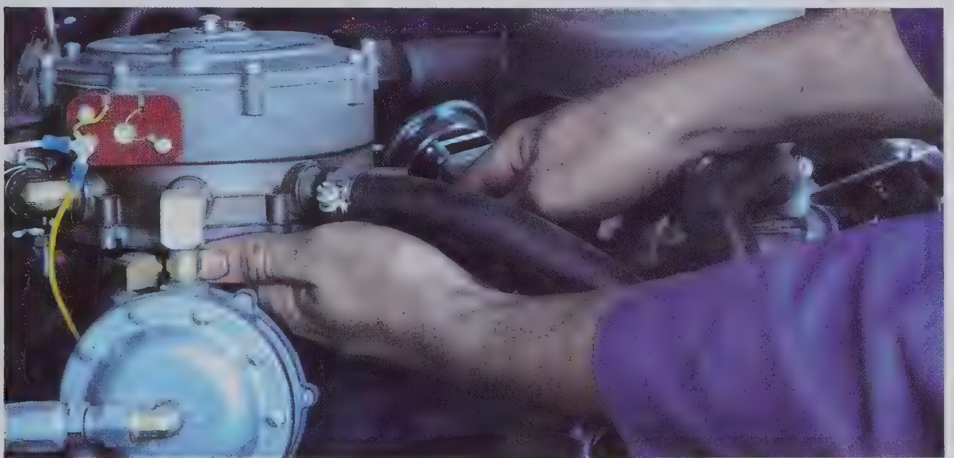
ICG AUTO-PROPANE

Propane has been used as a motor fuel for years, and is in wide-spread use in certain European countries. Apart from a very few fleets, including some 300 of our own vehicles, propane has not been accepted for this role in Canada—until 1980. During the year, increasing gasoline prices, the threat of world oil shortages, and government actions combined to create real growth opportunity for propane as a transportation fuel. As a result, ICG embarked on a major program called ICG Auto-Propane for the conversion and fueling of fleet vehicles across Canada.

Together with government incentives which reduce the cost of conversion, propane has very rapidly become a proven alternative to gasoline and one that is available now.

ICG has committed itself to leadership in this market segment in the same way as we command leadership in the retail propane market. Volume projections for propane as a motor fuel indicate substantial growth potential by 1985.

Checking engine performance on an earlier propane conversion.



An ICG Auto-Propane technician makes final adjustments to a new conversion.

In Technical Centres across Canada, ICG uses the most modern equipment to ensure peak performance of propane vehicles.

Propane is in surplus supply in Canada, with over 60% of total production being exported. Through ICG Auto-Propane, we are assuming the leading role in utilising this surplus to displace imported oil in the transportation sector. ICG Auto-Propane offers the fleet operator a complete program including parts, technical support, training of mechanics, conversion supervision and, most importantly, fuel supply. ICG Auto-Propane facilities have been established in key cities across Canada (six will be open in mid 1981), each of which will be supported by a network of Authorized Service Centres—automotive dealers with their own service support. The benefit to the fleet operator is operating cost saving of as much as 35% per mile.

UTILITIES

In 1980, we added a total of 4,582 natural gas customers and, at year-end, serviced 87,828 natural gas customers plus 3,154 customers receiving electricity. With temperatures returning to near normal in our service areas, volume sales to rate schedule customers were down from 1979 by approximately 2% to 21.8 Bcf. Volume sales to special contract customers were down by approximately 10% to 22.3 Bcf. This reduction was primarily in the Minnesota region where the Canadian export price of gas, economic conditions and conservation efforts all contributed to reduced demand for natural gas.

Although volumes declined in 1980, operating revenues increased due to the pass-through of increased cost of gas sold. However, lower operating margins, together with the cost of certain non-recurring operating and maintenance costs, reduced operating profit to $8,650,000. Capital expenditures increased $4,399,000 over 1979 to $11,170,000. Most of the increase resulted from the construction of a transmission system to provide long-term gas supply to several communities in Alberta. Customers' contributions during 1980 amounted to $2,251,000 resulting in net capital expenditures of $8,919,000.

In 1980, we processed a total of twenty-eight rate adjustment applications, of which all but one was relative to the passing through of increased costs from our suppliers.

The investment cost per new customer and our operating and maintenance expenses are increasing rapidly due to inflation. These increased costs, together with escalating interest rates, are eroding earnings from existing operations and our returns on equity are declining. Accordingly, during 1981, rate relief and/or higher returns will be requested from most of the nine regulatory jurisdictions in which the Company operates.

In the past two years, the Company has made a strong commitment to expansion of its service areas, particularly in the provinces of Quebec and Nova Scotia.

Approved Transmission Line (approximate location)
Proposed Eastern Extension

The National Energy Board has approved the extension of gas transmission facilities from Montreal to Quebec City, including extensions to the Eastern Townships and the Saguenay/Lac St. Jean area, in the province of Quebec. Gaz Inter-Cité Québec, Inc. was formed in 1979 to pursue distribution rights for natural gas in all unserviced regions of the province. In March 1981, this company was granted a 30 year exclusive franchise for virtually all of the area applied for. Gaz Inter-Cité will become 49% owned each by Inter-City Gas Corporation and Société Québécoise d'Initiatives Pétrolières (SOQUIP), with the remaining 2% held by another Quebec Crown Corporation. Building of the transmission line will be started in the spring of 1981, and construction of the distribution system will follow in anticipation of scheduled gas deliveries. Capital expenditure over the first ten years will amount to approximately $500 million (in constant 1979 dollars). Financing for this expenditure will be raised by the new company over that period through a combination of debt and equity.

With respect to Atlantic Canada, ICG appeared before the National Energy Board at hearings in March 1981 in support of a proposal to extend the gas transmission facilities from Quebec City through New Brunswick to Halifax, Nova Scotia. The federal government has announced that in the "national interest" they will support the extension of the gas transmission facilities to Halifax as part of the National Energy Program.

"ICG's pursuit of opportunities for expansion into new natural gas market territories is balanced by a concerted effort to achieve improved results on its existing operations, through increased market penetration and greater productivity."

Norm Didur, Group Vice-President.

ICG Scotia Gas Limited is seeking the gas distribution franchise rights in Nova Scotia. The Company has filed a proposal to the provincial government and is awaiting a decision. ICG Scotia Gas Limited is a new company established specifically to seek distribution rights in Nova Scotia, and is owned 50% each by ICG and a group of Nova Scotia investors.

ICG Brunswick Gas Ltd. was formed during the year for a similar purpose in New Brunswick and the Company expects to file a proposal to the provincial government during 1981.

On the West coast, Vancouver Island Gas Company Ltd., 92% owned by ICG, will be seeking the gas distribution franchise rights for the unserved areas of Vancouver Island. It is anticipated that hearings will be held by the British Columbia Utilities Commission this year. Vancouver Island Gas currently serves the City of Nanaimo with a propane-air distribution system.

The company is also preparing feasibility studies for expansion into two new market areas in Manitoba outside of the currently franchised areas. The expansion into these areas may be subject to National Energy Board approved in respect to extension of gas transmission facilities.

ICG's pursuit of these opportunities for expansion into new natural gas market territories is balanced by a concerted effort to achieve improved results on its existing operations, through increased market penetration and greater productivity.

The outlook for all our operations in both existing and proposed expansion areas is brighter as a result of some of the incentives included in the National Energy Program. The most significant of these are the measures to provide financial assistance to gas distribution companies to extend service to communities which would not otherwise be economically feasible, and incentives to consumers to convert from oil to gas. Basically, consumers who convert their heating and water heating appliances from oil to gas will receive a grant from the federal government of 50% of conversion costs to a maximum of $800.00.

Although we have already achieved relatively high penetration in our existing service areas, the introduction of the conversion incentives in 1981 are expected to allow us to achieve a higher customer growth rate than our historical rate of 5-6% per year.

Operating Companies and Management

ICG UTILITIES LTD.
E. P. Rimmer
Vice-President, Planning

G. Hoffman
Vice-President, Rate Administration

J. Lagadin
Vice-President, Engineering

B. McLean
Vice-President, Controller

ICG UTILITIES (PLAINS WESTERN) LTD.
R. Callow
Vice-President

INTER-CITY GAS UTILITIES LTD.
D. Fearns
Vice-President

INTER-CITY GAS (MINNESOTA) INC.
F. Little
Vice-President

Other Utility Interests

GAZ INTER-CITÉ QUÉBEC INC. (49% owned)
G. Barbeau
President

ICG SCOTIA GAS LIMITED (50% owned)
M. G. Meacher
Vice-President

VANCOUVER ISLAND GAS CORPORATION (92% owned)
D. G. Olsen
General Manager

ICG's largest natural gas customer—Boise-Cascade at International Falls/ Fort Frances.

MANUFACTURED PRODUCTS

In both Canada and the United States, our 1980 results in manufacturing operations showed continued growth and a significant improvement in profitability.

CANADA

Operating revenue increased by 20% to $34,181,000 and operating profit by 62% to $2,076,000, largely attributable to an increased share in the growing gas furnace market, and improved gross margin retention on the broad range of manufactured and wholesale lines.

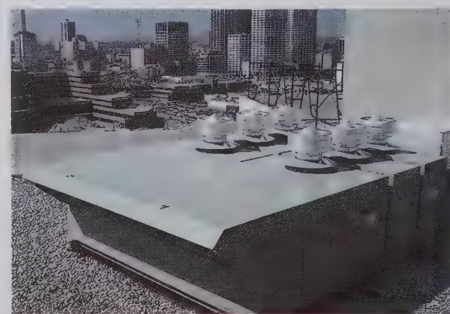
Reflecting our strong commitment to a full product line and to efficient energy use, research and development expenses were increased by over 65%. Our efforts to achieve higher efficiency from existing furnace technology has already produced positive results. Approvals have been granted to a broader line of commercial products, including our indirect fired heating/ventilating systems and atmospheric and power gas conversion burners, and to high efficiency residential gas furnaces with vent dampers and direct spark ignition. Higher efficiency research in residential furnaces has also concentrated on flue-condensing technology which, together with the earlier approved devices, will bring conventional furnace from approximately 60% efficiency to approximately 90%.

Beyond these immediate efficiency improvements, the balance of our research funds have been spent on laboratory development of totally new furnace technology to deliver ultra-high efficiency of over 95%. Results to date are encouraging, with full-scale laboratory testing scheduled to continue through 1981 and field testing of several prototypes to take place in the 1981-82 heating season.

Manufacturing capability was increased substantially in 1980 by the completion of a 20,000 sq. ft. addition to the commercial factory in Winnipeg, and by the acquisition, early in 1981, of the assets of Les Industries Barriére, a heating equipment manufacturer in Montreal. We are now even more strongly placed to respond to the increased demand for gas-fired and electric heating equipment which will result from federal incentives to consumers and business to convert off oil, and the extension of the natural gas pipeline into Quebec east of Montreal and, ultimately, to Atlantic Canada. The importance of our Montreal plant and wholesale distribution operation assumes even greater significance in the light of the expansion of natural gas distribution in Eastern Canada.

High efficiency furnace availability, incentives to displace imported heating oil, and the increasing numbers of replacement furnaces required are factors which make our outlook bright.

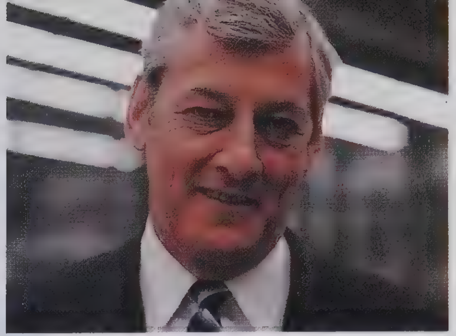
At ICG's lab in Toronto, research is aimed at improved efficiency from all types of burners.



A rooftop ICG commercial installation overlooking Calgary.

Part of the large diameter pipe mill operated by Thompson Pipe and Steel in Denver.

"High efficiency furnace availability, incentives to displace imported heating oil, and the increasing numbers of replacement furnaces required are factors which make our outlook bright."



Roy Beenham, Group Vice-President.

UNITED STATES

The recovery first indicated in 1979, produced operating results in 1980 which were highly satisfactory. Operating revenue increased 25% to $26,345,000 and operating profit jumped 230% to $5,845,000. Thompson Pipe & Steel's performance is attributable to a 31% increase in volume and improvement in gross profit margins of both straight pipe and fabricated products.

Engineered products represent the main thrust of the company's business with most contracts awarded on competitive bids, where the pipe or other steel fabrication is manufactured to specifications provided by the customer. Principal end users are municipalities for water transmission and water and sewage treatment and power plants for circulating water systems. Engineering, consulting and general contracting firms, as representatives of end users, comprise a major segment of the company's market.

Corrugated steel pipe is used for non-pressure water drainage for highways and for residential, industrial and commercial real estate development. A new spiral mill for production of corrugated pipe was installed in early 1981 which will improve both the company's competitive position and gross margins in this product line.

The company has also distributed waterworks products of other manufacturers which has proven to be unprofitable. This business has been terminated as at December 31, 1980.

During 1980, an additional 10 acres of adjacent property was acquired which will allow for both expansion and improved flow of operations.

Operating Companies and Management

INTER-CITY MANUFACTURING LTD.
ICG ENERGY PRODUCTS LTD.
D. Tayler
Vice-President, General Manager

R. Gannon
Vice-President, Controller

THOMPSON PIPE & STEEL COMPANY
E. N. Seward
President

R. S. Mills
Vice-President

INTER-CITY GAS CORPORATION
TEN YEAR SUMMARY OF OPERATIONS

	(In Thousands of Dollars)		
	1980	1979	1978
Operating revenues	417,178	454,383	229,090
Operating costs			
Cost of sales	271,441	333,894	169,441
Operating, selling and administration	73,827	68,329	33,555
Depreciation and depletion	15,314	12,843	7,076
	360,582	415,066	210,072
	56,596	39,317	19,018
Equity in net income of Canadian Hydrocarbons	—	—	1,758
Equity in net income of Canadian Homestead Oils	—	2,187	713
Operating profit	56,596	41,504	21,489
Financial Expenses	22,535	19,285	11,386
Income before income taxes	34,061	22,219	10,103
Income taxes	14,412	9,312	2,410
	19,649	12,907	7,693
Minority interest	(1,543)	(968)	(505)
Discontinued business	(228)	—	—
Extraordinary items	464	495	121
Net income for the year	18,342	12,434	7,309
Net income per common share	$1.42	$1.43	$1.21
Dividends paid—			
Preferred shares	1,592	1,619	1,335
Common shares	3,823	2,372	1,570
Dividends paid per common share	$0.32	$0.31	$0.28
Fixed assets (cost)	430,898	289,244	267,508
Common shareholders' equity	128,951	54,967	42,657
Number of outstanding common shares	13,437‡	7,889‡	7,162‡
Book value per share	$9.60	$6.97	$5.96

*These figures have been adjusted to reflect two-for-one stock splits that took place in the years 1971 and 1973.

‡After deducting shares held by subsidiary companies net of minority interest.

This summary represents the historical reported results of the Company's operations. Prior years' amounts are not restated to reflect acquisitions or disposals of significant business activities.

1977	1976	1975	1974	1973	1972	1971
81,995	67,728	52,630	37,399	32,689	27,195	22,259
58,160	48,560	36,603	25,001	22,585	18,979	15,942
9,943	8,409	6,941	5,384	4,713	3,854	3,006
3,258	2,215	1,648	919	797	668	568
71,361	59,184	45,192	31,304	28,095	23,501	19,516
10,634	8,544	7,438	6,035	4,594	3,694	2,743
2,852	1,207	—	—	—	—	—
—	—	—	—	—	—	—
13,486	9,751	7,438	6,035	4,594	3,694	2,743
7,439	4,330	2,642	2,249	2,136	1,593	1,501
6,047	5,421	4,796	3,786	2,458	2,101	1,242
737	1,572	2,174	1,659	1,003	547	254
5,310	3,849	2,622	2,127	1,455	1,554	988
—	—	—	—	(3)	(11)	(22)
—	—	—	—	—	—	—
(188)	—	—	—	—	—	—
5,122	3,849	2,622	2,127	1,452	1,543	966
$0.94	$0.73	$0.56	$0.45	$0.37	$0.43*	$0.26*
1,100	903	713	537	352	362	292
1,160	1,031	825	683	378	248	198
$0.27	$0.24	$0.24	$0.20	$0.12	$0.09*	$0.07½
66,606	60,393	52,832	48,895	39,288	35,226	30,113
17,431	14,549	9,625	8,413	7,504	5,615	4,345
4,297	4,296	3,436	3,416	3,411	2,763*	2,648*
$4.06	$3.39	$2.80	$2.46	$2.20	$2.03*	$1.64*

FINANCIAL REVIEW

Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis provides a review of the results of operations and financial condition of the Company over the past three years and includes a brief description of the significant factors and events that have affected the Company during that time.

The most significant events affecting the Company over the past three years have been the completion of the acquisition in late 1978 and early 1979 of 100% of the outstanding common shares of Canadian Hydrocarbons Limited, the amalgamation of Canadian Homestead Oils Limited (previously a 48% owned subsidiary) in April, 1980 and the disposal of the U.S. petroleum operations on April 1, 1980. While the full impact of the acquisition of Canadian Hydrocarbons and its subsidiaries is now reflected in the financial statements, the full impact of the amalgamation of Canadian Homestead will not be felt until 1981. The petroleum operations in the United States have been reflected as Discontinued Business.

The financial statements and information in the notes thereto for the years 1979 and 1978 have been restated to provide an appropriate basis of comparison to the results of operations and changes in financial condition in respect of the continuing operations of the Company as reflected in the current year's financial statements. In the discussion which follows, any reference to or comparison with prior years' information is to the restated information. Information by business segment and geographic area for the past three years and selected financial data for the past five years, is provided in Notes 21 and 19 to the financial statements, respectively and should be read in conjunction with this discussion.

Operating revenues increased by 23.0% from $339,192,000 in 1979 to $417,178,000 in 1980. This increase is largely due to price increases in natural gas sales in both the Exploration and Production Division and the Utilities Division and in propane in the Liquid Gas Division. Volume increases in both the Canadian and United States sectors of the Manufactured Products Division also contributed to the increase in revenues. Operating costs were up $64,709,000 or 21.9% over 1979. The most significant increases are in costs of sales where prices of purchased gas in the Utilities Division and propane in the Liquid Gas Division, have risen sharply. Operating, selling and administrative expenses continue to be effected by inflation and increases in these costs were experienced in all divisions.

Operating profits have increased by $13,227,000 or 30.6% from 1979 to 1980 compared with an increase of $9,583,000 or 28.4% from 1978 to 1979. Significant increases in interest rates, combined with higher financing requirements, caused financial expenses for 1980 to increase by $4,734,000—26.6% over 1979.

The combined effect of the abovementioned factors has resulted in significant increases in the dollar amount of income, both before and after income taxes and in terms of improved return on revenues. Income after income taxes expressed as a percentage of operating revenues, is 4.7% for 1980 compared with 4.3% in 1979 and 3.8% in 1978. The acquisition of all outstanding common shares of Canadian Hydrocarbons and the amalgamation of Canadian Homestead are the most significant factors in the decrease in minority interest expense in 1979 and 1980, respectively. As discussed above, the full impact of the amalgamation of Canadian Homestead will be reflected in the 1981 financial statements when this minority interest deduction will disappear.

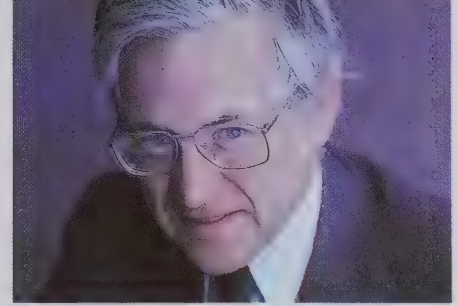
Net income for the year from continuing operations increased by $6,130,000 to $18,106,000 in 1980, an increase of 51.2%. However, with the increase in the weighted average number of common shares outstanding as a result of the amalgamation net income per common share from continuing operations, after dividends on preference shares, amounted to $1.40 in 1980 compared with $1.37 in 1979.

The financial activities of the Company have resulted in a decrease in working capital of $35,863,000 in 1980 compared with $18,641,000 in 1979. The working capital deficiency as at December 31, 1980 is $74,119,000 and represents 51.6% of current assets. The details of why this deficit has occurred are varied. In general terms, however, it has resulted from management's decision to finance capital

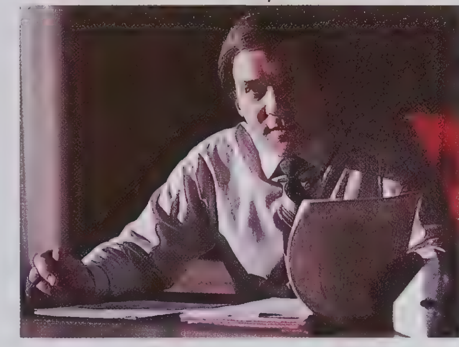
requirements in excess of funds provided by operations and other sources through short-term bank advances to the extent practicable and through term bank loans of short duration. This decision was made as an interim measure through the period when the Company was consolidating its holdings in Canadian Hydrocarbons, Canadian Homestead and other subsidiaries and disposing of its unprofitable operations.

The Company has achieved the consolidation of these operations and management has developed a financing plan (subject to documentation) that will result in a long-term credit facility of approximately $300,000,000. Drawdowns from this facility will be used initially to partially repay term bank loans and reduce the working capital deficiency. In addition, the facility will provide the funds for the 1981 capital expenditure program and for future expansion.

Recent significant events which do not effect the financial statements for 1980 but which will effect future years' financial statements are the awarding of a 30 year exclusive franchise for the distribution of natural gas to 80 communities in the province of Quebec, to Gaz Inter-Cité Québec Inc. (in which the Company will have a 49% interest), and the National Energy Program and related budget measures introduced by the Government of Canada on October 28, 1980. While it is not possible to determine the financial impact of the National Energy Program on the operations of the Company, the policies already outlined should have a positive impact on the Liquid Gas, Utilities and Canadian Manufactured Products Divisions and a negative impact only on the Exploration and Production Division.



JOHN E. CARSTAIRS
Vice-President and Secretary



HUGH C. COPPEN
Vice-President, Marketing

WAYNE R. HARDING, C.A.
Vice-President, Corporate Development (US)

PETER MARRIOTT, C.A.
Senior Vice-President and Controller

ERNIE D. WARKENTIN
Vice-President, Human Resources

SHAREHOLDER INFORMATION

Directors

ROBERT G. GRAHAM

WAYNE R. HARDING

GORDON P. OSLER

J. DEREK RILEY

GEORGE C. SOLOMON

ALAN SWEATMAN, Q.C.

MICHAEL J. WALTON

Stock Exchange Listings

TORONTO STOCK EXCHANGE
AMERICAN STOCK EXCHANGE
WINNIPEG STOCK EXCHANGE

Solicitors

THOMPSON, DORFMAN, SWEATMAN

Auditors

COOPERS & LYBRAND

Transfer Agents and Registrar

GUARANTY TRUST COMPANY
Winnipeg, Toronto,
Calgary and Vancouver

Head Office

Inter-City Gas Building
444 St. Mary Avenue
Winnipeg, Manitoba
R3C 3T7

Officers

ROBERT G. GRAHAM
President and Chief Executive Officer

DONALD S. ROGERS
Executive Vice-President and Chief Operating Officer

C. ROY BEENHAM
Group Vice-President, Manufactured Products

NORMAN J. DIDUR
Group Vice-President, Utilities

RICHARD C. SIEGFRIED
Group Vice-President, Exploration and Production

WILLIAM ZBOROLUK
Group Vice-President, Liquid Gas

PETER MARRIOTT, C.A.
Senior Vice-President and Controller

WAYNE R. HARDING, C.A.
Vice-President, Corporate Development
(United States)

HUGH C. COPPEN
Vice-President, Marketing

ERNIE D. WARKENTIN
Vice-President, Human Resources

JOHN E. CARSTAIRS
Vice-President and Secretary

BARRE W. HALL
Assistant Secretary

The following table provides certain market information in respect of the Company's common shares for the years ended December 31, 1980 and 1979.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Market price per common share (Toronto Exchange)				
1980 High	$25.75	$20.375	$26.375	$23.875
Low	$10.50	$14.625	$16.50	$14.00
1979 High	$ 9.75	$16.00	$19.58	$22.50
Low	$ 8.125	$ 9.00	$14.50	$16.38
Dividends per common share				
1980	$ 0.08	$ 0.08	$ 0.08	$ 0.08
1979	$ 0.07	$ 0.08	$ 0.08	$ 0.08

ANNUAL REPORT ON FORM 10-K

The SEC Annual Report on Form 10-K for the year ended December 31, 1980 will be provided by mail upon receipt of a written request. Requests should be directed to: The Secretary, Inter-City Gas Corporation, Inter-City Gas Building, 444 St. Mary Avenue, Winnipeg, Manitoba R3C 3T7.

The Annual Meeting of the shareholders of Inter-City Gas Corporation will be held on May 29, 1981 at 11:00 a.m. in the Kildonan Room, Holiday Inn, 350 St. Mary Avenue, Winnipeg, Manitoba, Canada.

INTER-CITY GAS CORPORATION
CONSOLIDATED STATEMENT OF INCOME
For the Years Ended December 31, 1980, 1979 and 1978

		(In Thousands of Dollars)		
		1980	1979 (Notes 2 & 3)	1978 (Notes 2 & 3)
OPERATING REVENUE		417,178	339,192	305,513
OPERATING COSTS	Cost of sales	271,441	221,819	204,288
	Operating, selling and administrative expenses	73,827	61,683	55,732
	Depreciation and depletion	15,314	12,371	11,757
		360,582	295,873	271,777
OPERATING PROFIT		56,596	43,319	33,736
FINANCIAL EXPENSES	Interest on long-term debt	14,711	12,015	11,052
	Other interest	9,994	5,918	3,467
	Interest capitalized	(3,261)	(1,096)	(597)
	Amortization of other assets	491	605	709
	Loss on foreign exchange	600	359	1,115
		22,535	17,801	15,746
INCOME BEFORE INCOME TAXES		34,061	25,518	17,990
PROVISION FOR INCOME TAXES (Note 14)				
	Current	7,998	7,609	2,286
	Deferred	6,414	3,222	4,207
		14,412	10,831	6,493
INCOME AFTER INCOME TAXES		19,649	14,687	11,497
MINORITY INTEREST IN SUBSIDIARY COMPANIES				
	Canadian Homestead Oils Limited (Note 2)	830	1,743	1,564
	Canadian Hydrocarbons Limited	—	70	2,012
	Others	713	898	968
		1,543	2,711	4,544
INCOME FROM CONTINUING OPERATIONS		18,106	11,976	6,953
DISCONTINUED BUSINESS (Note 3)				
	Income (loss) from operations	(1,777)	(37)	235
	Gain on disposal and provision for losses	1,549	(765)	—
		(228)	(802)	235
EXTRAORDINARY ITEMS				
	Gain on disposal of subsidiary company and provision for loss on investment in subsidiary— net of income taxes 1979—Nil; 1978—$512	—	364	(511)
	Reduction of current income taxes on application of prior years' losses	464	896	632
		464	1,260	121
NET INCOME FOR THE YEAR (Note 13)		18,342	12,434	7,309

INTER-CITY GAS CORPORATION
CONSOLIDATED BALANCE SHEET
as at December 31, 1980 and 1979

(In Thousands of Dollars)

ASSETS

		1980	1979
CURRENT ASSETS	Cash and short term deposits	4,559	11,918
	Accounts and notes receivable less allowance for doubtful accounts; 1980—$2,011 1979—$2,182 (Note 4)	87,332	73,754
	Income taxes recoverable	4,048	1,385
	Inventories (Notes 4 and 5)	47,008	36,528
	Prepaid expenses	708	881
		143,655	124,466
INVESTMENTS	Shares of Canadian Homestead Oils Limited (Note 2)	—	29,905
	Note receivable (Note 3)	21,472	—
	Shares in and advances to affiliated companies (Note 6)	3,134	1,213
	Employee share purchase plan loans (Note 7)	3,992	2,058
	Notes and mortgages	2,344	2,297
		30,942	35,473
FIXED ASSETS (Notes 4 and 8)	Property, plant and equipment—at cost	430,898	289,244
	Accumulated depreciation and depletion	107,384	88,359
		323,514	200,885
OTHER ASSETS AND DEFERRED CHARGES— at cost, less amortization	Financing expenses	1,570	2,302
	Rate hearings and other	2,269	1,339
	Goodwill	269	158
		4,108	3,799
		502,219	364,623

Signed on behalf of the Board

Director

Director

(In Thousands of Dollars)

LIABILITIES

		1980	1979
CURRENT LIABILITIES	Bank advances (Note 4)	100,350	66,736
	Accounts payable and accrued liabilities	82,054	73,295
	Income taxes payable	2,729	2,358
	Current maturities of long-term debt	23,261	14,057
	Deferred income and deposits	9,380	5,494
		217,774	161,940
LONG-TERM DEBT (Notes 4 and 9)		99,579	93,539
CUSTOMERS' CONTRIBUTIONS IN AID OF CONSTRUCTION		3,132	1,013
DEFERRED INCOME TAXES (Note 14)		34,317	21,824
MINORITY INTERESTS IN SUBSIDIARIES (Note 10)		6,708	12,629
		361,510	290,945
REDEEMABLE PREFERENCE SHARES (Note 11)		11,758	18,711
COMMON SHAREHOLDERS' EQUITY			
STATED CAPITAL (Note 12)		121,689	42,024
RETAINED EARNINGS		36,243	23,316
		157,932	65,340
COMMON SHARES OF THE COMPANY HELD BY SUBSIDIARIES—at cost (1980—5,990,985; 1979—1,037,250) (Note 12)		28,981	10,373
		128,951	54,967
		502,219	364,623

INTER-CITY GAS CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Years Ended December 31, 1980, 1979 and 1978

	1980	1979	1978
		(In Thousands of Dollars)	
		(Notes 2 & 3)	(Notes 2 & 3)
WORKING CAPITAL PROVIDED			
From continuing operations (Note 15)	41,211	32,086	25,691
Discontinued business			
From (to) operations	(604)	2,332	2,125
Other working capital requirements (net)	(697)	(7,838)	(7,420)
Proceeds on disposal, net of long-term portion of note receivable and provision for losses	11,700	(765)	—
Working capital at date of sale	(8,113)	—	—
	2,286	(6,271)	(5,295)
Extraordinary items			
Proceeds on disposal and provision for loss on investment	—	3,800	(511)
Reduction of income taxes	464	896	632
	464	4,696	121
Long-term debt issued	25,420	14,586	11,179
Proceeds from sale of property, plant and equipment	2,779	4,707	2,646
Proceeds from issue of common shares	2,120	3,867	775
Notes, mortgages, customer contributions and other	4,117	2,779	3,962
Proceeds from sale of shares of Canadian Homestead Oils Limited	2,901	—	—
Proceeds from issue of third preference shares Series A and sale of preferred shares of a subsidiary company	—	—	11,316
	81,298	56,450	50,395
WORKING CAPITAL APPLIED			
Additions to property, plant and equipment	66,018	46,804	31,699
Repayment of long-term debt	26,921	13,627	10,608
Dividends to shareholders and to minority interests	6,069	4,675	4,273
Cost of shares in Canadian Homestead Oils Limited	—	2,264	—
Notes, mortgages, other assets and deferred charges	2,224	2,414	3,422
Employee share purchase plan loans (net)	1,934	412	862
Shares in and advances to affiliated companies	1,921	1,213	—
Redemption of preference shares	6,953	86	259
Purchase of minority interest common and preferred shares and redemption of preferred shares held by minority interests	5,121	3,596	431
	117,161	75,091	51,554
INCREASE IN WORKING CAPITAL DEFICIENCY (Note 15)	35,863	18,641	1,159
WORKING CAPITAL DEFICIENCY—Beginning of year	38,256	19,615	18,456
WORKING CAPITAL DEFICIENCY—End of year (Note 15)	74,119	38,256	19,615

INTER-CITY GAS CORPORATION
CONSOLIDATED STATEMENT OF RETAINED EARNINGS
For the Years Ended December 31, 1980, 1979 and 1978

	(In Thousands of Dollars)		
	1980	1979	1978
BALANCE—beginning of the year	23,316	14,873	10,469
Net income for the year	18,342	12,434	7,309
	41,658	27,307	17,778
Dividends paid—			
First preference shares, Series B	380	395	401
First preference shares, Series C	420	420	420
Second preference shares, Series A	114	117	120
Second preference shares, Series B	122	126	131
Third preference shares, Series A	556	561	263
Common shares	3,823	2,372	1,570
	5,415	3,991	2,905
BALANCE—end of the year	36,243	23,316	14,873

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheets of Inter-City Gas Corporation as at December 31, 1980 and 1979 and the related consolidated statements of income, retained earnings and changes in financial position for the years ended December 31, 1980, 1979 and 1978. Our examinations were made in accordance with generally accepted auditing standards, and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of the Company as at December 31, 1980 and 1979 and the consolidated results of its operations and the changes in its financial position for the years ended December 31, 1980, 1979 and 1978 in accordance with generally accepted accounting principles applied on a consistent basis.

CHARTERED ACCOUNTANTS

Coopers & Lybrand

Winnipeg, Manitoba
March 23, 1981

INTER-CITY GAS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 1980, 1979 and 1978

1. SIGNIFICANT ACCOUNTING POLICIES

Consolidation The consolidated financial statements include the assets, liabilities and operating results of all subsidiary companies and have been prepared in accordance with generally accepted accounting principles in Canada which differ in certain respects with accounting principles in the United States. The differences between generally accepted accounting principles in Canada and the United States are described further in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission. The accounts of subsidiary companies are consolidated from the dates of acquisition on the basis of purchase accounting. The amounts by which the purchase price of subsidiary companies exceeds the fair value of the assets acquired have been treated as goodwill and are being amortized on a straight line basis over periods not exceeding twenty years.

Foreign Exchange The accounts of subsidiaries and divisions operating in the United States are translated into Canadian dollars at the rates of exchange on the balance sheet date for current assets and current liabilities, on the date of the transaction for other balance sheet accounts and at the average rate for the year for revenues and expenses. Gains and losses on translation are reflected in income. The rate of exchange as at December 31, 1980 was \$1.1947 Cdn. = \$1.00 U.S. (1979—\$1.1691 Cdn. = \$1.00 U.S.) and the average exchange rate for the year was \$1.1690 Cdn. = \$1.00 U.S. (1979—\$1.1715 Cdn. = \$1.00 U.S.; 1978—\$1.1402 Cdn. = \$1.00 U.S.).

Fixed Assets Fixed assets are recorded at cost which includes interest and overhead amounts capitalized during the construction period, and also includes the full cost method of accounting for oil and gas properties. Substantially all of the Company's exploration and production activities related to oil and gas are conducted jointly with others and accordingly, the accounts reflect only the Company's proportionate interest in such activities.

Depreciation is provided on a straight line basis at the following rates based on the estimated useful lives of the applicable assets:

Buildings	2½%—10%
Transmission lines and distribution systems	1% — 5%
Customer installations	2% — 5%
Refineries and gas plants	7% —10%
Transportation equipment	18% —30%
Machinery, equipment and furniture	10% —20%

Fixed assets leased under capital leases are capitalized and depreciated on the same basis and rates as above.

Depletion of oil and gas properties and depreciation of well equipment and gathering systems are provided on a unit of production method based on estimated recoverable reserves except that costs and estimated reserves applicable to the Arctic Islands have been excluded from the calculation. Limited term interests in oil and gas leases are depleted over their remaining terms.

Inventories Inventories of propane and petroleum products are valued at the lower of cost (first-in, first-out) and replacement cost. The comparative figures for 1979 include inventories valued on the last-in, first-out method applicable to certain United States subsidiaries which were sold during 1980. Inventories of merchandise, materials and supplies are valued at the lower of cost and net realizable value. Cost is determined for work-in-process and finished goods at standard prices and for raw materials and supplies on a first-in, first-out basis.

Investments To April 14, 1980, the Company accounted for its investment in Canadian Homestead Oils Limited by the equity method (see also Note 2). Other investments are stated at cost.

Deferred Charges Amortization of financing expenses is provided on a straight line method over the terms of the respective issues and the amortization of other deferred charges is provided on a straight line method over periods of three to twenty years.

Income Taxes Certain subsidiaries in the Utilities Division provide only for income taxes currently payable in their financial statements and in the calculation of their rates of return for rate-making purposes. However, for all other operations, the Company provides for deferred income taxes on all timing differences between accounting income and taxable income, including those relating to exploration, development and acquisition of petroleum and natural gas properties.

2. AMALGAMATION OF CANADIAN HOMESTEAD OILS LIMITED

The amalgamation of Inter-City Gas Limited and Canadian Homestead Oils Limited was approved by the shareholders at the Special General Meetings of Shareholders of each company, held on March 28, 1980, on the basis of one and four-tenths common shares of the amalgamated company for each common share of Canadian Homestead and one common share of the amalgamated company for each common share of Inter-City. The amalgamation was effected as of the close of business on April 14, 1980 at which time 10,252,431 common shares were issued in exchange for 7,323,165 common shares of Canadian Homestead Oils Limited and 8,938,778 common shares were issued in exchange for 8,938,778 common shares of Inter-City Gas Limited to form the new company Inter-City Gas Corporation.

Prior to the amalgamation, the Company owned, through various subsidiaries, 3,538,383 common shares (48.3%) of Canadian Homestead and had an effective interest of 47.2%. To April 14, 1980, the Company had recorded this effective interest on the equity method and, subsequent to that date, has followed consolidation accounting principles.

The amalgamation has been accounted for by the purchase method as follows:

		($000)
Equity accounted holding at April 14, 1980		27,419
Consideration given by way of issue of common shares (excluding shares issued to subsidiaries) and associated costs		60,331
		87,750
Represented by:		
Fixed assets	67,377	
Increase of oil and gas properties to fair value	42,614	
	109,991	
Other non-current assets	215	110,206
Current liabilities	13,120	
Current assets	10,270	
Working capital deficiency	2,850	
Long-term debt	11,020	
Deferred income taxes	8,586	22,456
Net assets acquired		87,750

The Consolidated Statements of Income and Changes in Financial Position for the year ended December 31, 1980 have been prepared to include the results of Canadian Homestead on a consolidated basis for the entire year. Earnings attributable to common shares of Canadian Homestead held by others prior to April 14 have been reflected as minority interest deduction. The Consolidated Statements of Income and Changes in Financial Position for the years ended December 31, 1979 and 1978 have been restated on the same basis in order to provide an appropriate basis of comparison.

The following pro-forma information shows results from operations as though the Company had completed the amalgamation with Canadian Homestead Oils Limited as of January 1. It also reflects pro-forma adjustments for completion of the acquisition of 100% of the outstanding common shares of Canadian Hydrocarbons Limited as of January 1, 1979 and 1978 which have previously been reported in the annual report to shareholders for the year ended December 31, 1979:

	1980	1979	1978
	($000)	($000)	($000)
Net income from continuing operations per the consolidated statement of income	**18,106**	11,976	6,953
Add—earnings attributable to shares held by other prior to acquisition by Inter-City			
—Canadian Hydrocarbons Limited (less minority share of extraordinary items in 1978 of $162,000)	—	70	1,850
—Canadian Homestead Oils Limited	**830**	1,743	1,564
	830	1,813	3,414
Less—depletion of excess purchase price	**126**	370	338
—Alberta Royalty Tax Credit claimed by Canadian Homestead Oils Limited	**287**	855	625
	413	1,225	963
Net income for the year from continuing operations	**18,523**	12,564	9,404
Discontinued business and extraordinary items	**236**	458	356
	18,759	13,022	9,760
Dividends on preference shares	**1,592**	1,619	1,335
Net income to common shareholders	**17,167**	11,403	8,425
Pro-forma weighted average common shares outstanding	**13,393,149**	12,995,602	12,610,554
Basic net income per common share			
—from continuing operations	**$1.26**	$0.84	$0.64
—after discontinued business and extraordinary items	**$1.28**	$0.88	$0.67

3. DISCONTINUED BUSINESS

On April 1, 1980, the Company sold its refinery and gas processing plant in Cut Bank, Montana, its refinery in Williston, North Dakota, its gasoline and propane retail outlets located in the north-western United States and certain oil and gas-producing properties located in North Dakota and Montana. As part of the sale agreement, the Company has a farm-in agreement which entitles it to continue exploration on the oil and gas properties.

Total consideration for the sale was $31,581,000 (U.S.) of which $11,001,000 has been received, $10,580,000 is due February 15, 1982 and $10,000,000 is due in equal amounts on December 31 in the years 1982 to 1989. All amounts outstanding bear interest at the rate of 13 ½% and are secured by shares of the companies sold.

The Consolidated Statements of Income and Changes in Financial Position for the years ended December 31, 1979 and 1978 have been restated to reflect income from continuing operations on a basis consistent with the method of presentation in 1980.

The amounts reflected in the Consolidated Statement of Income are net of income taxes and have been computed as follows:

	1980	1979	1978
	($000)	($000)	($000)
Income (loss) from operations before income taxes	(3,001)	(661)	470
(Provision for) recovery of income taxes	1,224	624	(235)
	(1,777)	(37)	235
Gain on disposal and provision for losses before income taxes	1,409	(1,530)	—
Recovery of income taxes	140	765	—
	1,549	(765)	—

4. SECURITY FOR BANK ADVANCES, TERM LOANS AND OTHER LONG-TERM INDEBTEDNESS

Current bank loans, term bank loans and other long-term indebtedness are generally secured by a pledge of inventories, accounts receivable, production proceeds, certain shares of subsidiary and affiliated companies, certain fixed assets and interest in certain petroleum and natural gas properties.

/ The company and its subsidiaries have lines of credit with Canadian and United States banks totalling $110,787,000 (1979—$75,566,000) of which $100,350,000 has been used at December 31, 1980 (1979—$66,736,000).

The weighted average interest rate on the outstanding bank advances at December 31, 1980 was 18.37% (1979—15.11%). Weighted average interest rates are calculated based on actual interest rates in effect and the bank advances outstanding as at December 31. The maximum amount of bank advances outstanding at any month-end during the year was $100,350,000 (1979—$66,736,000).

The average bank advances outstanding, calculated by averaging month-end balances, during the year ended December 31, 1980 was $76,642,000 (1979—$53,575,000) and the approximate weighted average interest rate on these bank advances was 14.06% for the year ended December 31, 1980 (1979—12.75%). Weighted average interest rates are calculated based on the average interest rates and average loan balances outstanding.

5. INVENTORIES

Inventories are classified as follows:

	1980	1979
	($000)	($000)
Propane and petroleum products		
—Canada	7,569	5,632
—United States	—	2,920
Prepaid natural gas	2,301	—
Raw materials	6,206	5,164
Finished goods	7,113	6,478
Work-in-process	2,498	1,681
Merchandise, materials and supplies	21,321	14,653
	47,008	36,528

Propane and petroleum products priced on the last-in, first-out method at December 31, 1979, amounted to $2,920,000 which was approximately $6,702,000 below replacement cost.

6. SHARES IN AND ADVANCES TO AFFILIATED COMPANIES

The Company holds interests in three corporations which were incorporated to seek franchises to distribute natural gas in the provinces of Nova Scotia and New Brunswick and in certain unserved areas in the province of Quebec.

Extension of the natural gas transmission pipeline east of Montreal to Quebec City has been approved by the National Energy Board and construction is scheduled to commence in 1981. On March 11, 1981 the Quebec government announced that a subsidiary company, Gaz Inter-Cité Québec Inc., has been awarded the gas distribution franchises it had been seeking. The franchises are for a thirty year period. The Company will own 49% of Gaz Inter-Cité Québec Inc. and, consequently, the investment will be accounted for by the equity method.

The ability to proceed in Nova Scotia and New Brunswick depends on extending the natural gas transmission pipeline east of Quebec City. At the present time, no decision has been made with respect to the construction of the pipeline or granting of these franchises.

Funding of the costs of these companies for preliminary investigative work and other costs associated with applications for these franchises has been provided by capital contributions and advances. As at December 31, the amounts are:

	1980 ($000)	1979 ($000)
Shares	1,775	25
Advances	1,359	1,188
	3,134	1,213

7. EMPLOYEE SHARE PURCHASE PLAN

During 1980, 146,500 common shares (1979—130,000) were purchased by employees under the terms of the share purchase plan. In addition, $379,000 was repaid by employees to the Company.

The balance due from employees at December 31, 1980 amounted to $3,992,000 (1979—$2,058,000). These loans are non-interest bearing.

8. FIXED ASSETS

Property, plant and equipment are classified as follows:

	1980			1979
	Cost ($000)	Accumulated Depreciation and Depletion ($000)	Net Book Value ($000)	Net Book Value ($000)
Petroleum and natural gas properties, leases and exploration costs	179,507	34,133	145,374	38,057
Refineries and gas plants	24,030	8,379	15,651	19,700
Wellhead equipment and gathering systems	16,636	5,075	11,561	5,500
Transmission lines and distribution systems	96,939	13,489	83,450	75,313
Customer installations	43,363	21,440	21,923	22,277
Transportation equipment	21,127	9,277	11,850	7,728
Machinery, equipment and furniture	28,840	13,006	15,834	16,286
Buildings	15,949	2,585	13,364	11,656
Land	4,507	—	4,507	4,368
	430,898	107,384	323,514	200,885

Details of assets leased under capital leases and included in fixed assets are as follows:

	1980			1979
	Cost ($000)	Accumulated Depreciation and Depletion ($000)	Net Book Value ($000)	Net Book Value ($000)
Customer installations	2,188	1,180	1,008	1,092
Transportation equipment	7,866	1,288	6,578	2,342
	10,054	2,468	7,586	3,434

9. LONG-TERM DEBT

The details of long-term debt are as follows:	1980 ($000)	1979 ($000)
Term bank loans, secured, bearing interest at rates varying from prime to 1½% over the bank prime rate repayable during the period 1981 to 1990	60,016	41,191
Production bank loans, secured, bearing interest at a rate of 1% over the bank prime rate repayable during the period 1981 to 1984	5,899	6,530
Sinking fund debentures bearing interest at rates varying from 6% to 11% due in the years 1981 to 1994	18,659	19,848
First mortgage bonds issued in series bearing interest at rates varying from 6% to 9½% due in the years 1982 to 1994	6,366	6,887
Subordinated debenture bearing interest at 5% due in 1990	3,239	7,039
Promissory notes bearing interest at rates varying from 7% to 10¾% due in the years 1981 to 1996	17,963	19,722
Sundry notes and mortgages	2,368	2,358
Capitalized lease obligations bearing interest at rates varying from 8% to the bank prime rate plus ½% repayable during the period 1981 to 1992	8,330	4,021
	122,840	107,596
Current maturities included in current liabilities	23,261	14,057
	99,579	93,539

Amounts repayable in United States funds are translated into Canadian funds at the historical exchange rates in effect at their respective dates of issue except for current maturities which are translated at the year-end exchange rate. If all amounts repayable in United States funds were translated at the exchange rate in effect at year-end, it would result in an increase in long-term debt of approximately $5,920,000 at December 31, 1980 ($6,270,000 at December 31, 1979).

Under the provisions of the various agreements and indentures, excluding capitalized lease obligations, the Company is required to make the following installments during the next five years:

Year	($000)
1981	23,261
1982	29,295
1983	11,978
1984	11,297
1985	10,969

Minimum lease payments required under capital leases are as follows:

Year	($000)
1981	2,260
1982	2,205
1983	2,099
1984	1,995
1985	1,127
subsequent years	2,507
Total minimum lease payments	12,193
Less—amount representing interest	3,863
Balance of capitalized lease obligations	8,330

10. MINORITY INTERESTS IN SUBSIDIARIES

The minority interests are comprised of the following:	1980 ($000)	1979 ($000)
Preferred shares in Canadian Hydrocarbons Limited and ICG Utilities Ltd.	5,900	11,565
Equity interest in—		
Castle Oil & Gas Limited	774	713
Vancouver Island Gas Company Limited	34	54
Fort St. John Petroleums Ltd.	—	276
Inter-City Manufacturing Ltd.	—	21
	6,708	12,629

11. REDEEMABLE PREFERENCE SHARES

(a) Authorized

600,000 first preference shares issuable in series of which 265,000 have been designated as Series B shares carrying a cumulative dividend entitlement of $1.65 per share and redeemable at $22.00 per share; and 200,000 have been designated as Series C shares carrying a cumulative dividend entitlement of $2.10 per share and redeemable at $22.00 per share to July 15, 1981 and thereafter at $21.00 per share.

262,468 second preference shares issuable in series of which 97,268 have been designated as Series A shares carrying a cumulative dividend entitlement of $1.30 per share and redeemable at a price not to exceed $20.63 per share; and 90,200 have been designated as Series B shares carrying a cumulative dividend entitlement of $1.50 per share and redeemable at $20.90 per share to June 1, 1981 and thereafter at $20.75 per share.

10,000,000 third preference shares issuable in series.

The redemption privileges on all preference shares are at the option of the Company only. Under the terms of the amalgamation with Canadian Homestead Oils Limited, the preference shares now have voting privileges at all meetings of shareholders, except meetings at which only holders of another class or series of shares are entitled to vote.

(b) Issued and fully paid

		1980		1979	
		Number	Amount ($000)	Number	Amount ($000)
First preference shares	—Series B	220,900	4,418	239,450	4,789
	—Series C	200,000	4,000	200,000	4,000
Second preference shares	—Series A	86,373	1,728	88,418	1,768
	—Series B	80,610	1,612	82,685	1,654
Third preference shares	—Series A	—	—	100,000	6,500
			11,758		18,711

(c) Purchase fund requirements

First preference shares Series B To purchase annually 7% of the original issue amount in 1981, 13% for each of the years 1982 to 1986 and 5% for each year thereafter. In 1980, 18,550 shares were cancelled (1979—nil; 1978—7,000).

First preference shares Series C To offer to purchase annually 7% of the original issue amount in 1981, 13% for each of the years 1982 to 1986 and 5% for each year thereafter. No shares were cancelled in 1980, 1979, or 1978.

Second preference shares Series A and B To purchase annually in the market, a minimum of 3% of the original issue amount outstanding at the end of the preceding year. In 1980, 2,045 Series A and 2,075 Series B shares were purchased and cancelled (1979—2,100 and 2,200; 1978—3,750 and 2,200).

Third preference shares Series A The third preference shares Series A issued in 1978 were redeemed at par.

The minimum purchase requirements for all series in the next five years are as follows:

Year	($000)
1981	751
1982	1,306
1983	1,304
1984	1,300
1985	1,298

12. STATED CAPITAL

In addition to the redeemable preference shares, the authorized stated capital of the Company includes 50,000,000 common shares (1979—20,000,000).

Changes in the issued and outstanding common shares for the years 1980, 1979 and 1978 are as follows;

	1980		1979		1978	
	Number	Amount ($000)	Number	Amount ($000)	Number	Amount ($000)
Issued and fully paid—beginning of the year	8,926,568	42,024	8,199,183	38,157	4,297,495	6,947
Issued upon amalgamation of Canadian Homestead Oils Limited	10,252,431	77,545	—	—	—	—
Issued in exchange for shares of Canadian Hydrocarbons Limited	—	—	111,193	1,001	3,804,338	30,430
Issued on exercise of share purchase warrants	35,284	123	488,192	1,714	2,350	8
Issued to employees under the employee share purchase plan	146,500	2,258	128,000	1,152	95,000	772
Cancelled against loans under the employee share purchase plan	(43,050)	(261)	—	—	—	—
Issued and fully paid—end of the year	19,317,733	121,689	8,926,568	42,024	8,199,183	38,157

At December 31, 1980, the Company has reserved 71,814 common shares for the exercise of share purchase warrants at $3.50 per share. The share purchase warrants expire July 31, 1981.

The increase in the number of common shares held by subsidiaries results from the amalgamation whereby 4,953,735 common shares of Inter-City Gas Corporation were issued in exchange for the 3,538,383 common shares of Canadian Homestead Oils Limited held by these subsidiaries.

13. NET INCOME PER COMMON SHARE

The net income per common share is calculated on the weighted average number of shares outstanding during the respective years as follows:

	1980 ($000)	1979 ($000)	1978 ($000)
Income for the year from continuing operations	18,106	11,976	6,953
Less—dividends on preference shares	1,592	1,619	1,335
Income to common shareholders from continuing operations	16,514	10,357	5,618
Discontinued business	(228)	(802)	235
Extraordinary items	464	1,260	121
Net income to common shareholders	16,750	10,815	5,974
Weighted average number of shares outstanding during the year	16,284,209	8,605,390	5,634,175
Less—weighted average of shares held by subsidiaries	4,468,063	1,034,655	690,462
	11,816,146	7,570,735	4,943,713
Basic net income per common share			
—from continuing operations	$1.40	$1.37	$1.14
—after discontinued business and extraordinary items	$1.42	$1.43	$1.21
Fully diluted net income per common share (treasury stock method)			
—from continuing operations	$1.39	$1.35	$1.07
—after discontinued business and extraordinary items	$1.41	$1.41	$1.13

Under the treasury stock method, fully diluted net income per common share is computed by increasing the average number of common shares outstanding during the year by the number of common shares to be issued on the exercise of warrants less the number of common shares that can be purchased in the open market with the proceeds from the exercise. For purposes of the calculation, it is assumed all warrants are exercised on January 1 and that shares are purchased on the open market at the average share price for the year.

14. INCOME TAXES

(a) A reconciliation between the statutory and the effective rate of income taxes is provided as follows:

	1980 ($000)	1979 ($000)	1978 ($000)
Income before income taxes	34,061	25,518	17,990
Federal statutory tax rate	47.8%	46%	46%
Computed income taxes	16,281	11,738	8,275
Increase (decrease) in income taxes resulting from—			
Regulated natural gas divisions	(1,356)	69	(89)
Alberta Royalty Credits	(1,287)	(1,855)	(1,644)
Excess of non-deductible oil and gas expenses over tax deductions	132	(176)	(82)
Inventory allowance	(359)	(306)	(242)
Amortization of goodwill	188	99	247
Foreign exchange	465	126	460
Non-deductible expenses and losses	428	940	600
Sale of non-depreciable assets	(460)	—	(765)
Investment tax credit	(171)	(566)	(362)
Other	551	762	95
Effective income taxes	14,412	10,831	6,493
Effective rate of income taxes	42.3%	42.4%	36.1%

(b) The components of income before taxes and income tax expense are as follows:

	1980	1979	1978
Income before income taxes			
—Canada	27,193	24,524	17,954
—United States	6,868	994	36
	34,061	25,518	17,990
Current income tax expense			
—Canada	5,096	6,406	2,818
—United States	2,902	1,203	(532)
	7,998	7,609	2,286
Deferred income tax expense			
—Canada	5,634	3,447	3,762
—United States	780	(225)	445
	6,414	3,222	4,207
	14,412	10,831	6,493

(c) Deferred income tax expense results from timing differences in the recognition of revenues and expenses for income tax purposes and financial statement purposes. The source of these differences are as follows:

	1980 ($000)	1979 ($000)	1978 ($000)
Excess of tax depreciation over book depreciation	1,390	752	122
Drilling and exploration costs claimed net of book depletion	2,533	1,960	2,792
Excess of items capitalized for book purposes and expensed for tax purposes	1,858	625	819
Other	633	(115)	474
Deferred income tax expense	6,414	3,222	4,207

If tax allocation had been followed in respect of all timing differences between accounting income and taxable income in respect of certain subsidiaries in the Utilities Division, the provision for deferred income taxes would have increased and consolidated net income would have decreased by $1,356,000 (1979—increase in net income of $69,000; 1978—decrease in net income of $89,000). At December 31, 1980, the accumulated deferred income taxes would have amounted to approximately $5,260,000 (1979—$3,904,000), in addition to the amounts recorded.

15. STATEMENT OF CHANGES IN FINANCIAL POSITION

(a) Working capital provided from operations is computed as follows:

	1980 ($000)	1979 ($000)	1978 ($000)
Net income from continuing operations before extraordinary items	18,106	11,976	6,953
Add (deduct) items not affecting working capital			
Depreciation and depletion	15,314	12,371	11,757
Amortization of other assets and deferred charges	694	1,351	817
Deferred income taxes	6,447	4,208	3,930
Gain on disposal of property, plant and equipment	(893)	(531)	(2,310)
Minority interest in subsidiaries	1,543	2,711	4,544
	41,211	32,086	25,691

(b) The increase in the working capital deficiency is represented by:

Increase (decrease) in current assets			
Cash	(7,684)	(951)	(2,066)
Accounts and notes receivable	6,357	15,073	(691)
Income taxes recoverable	1,808	(3,510)	5,473
Inventories	9,971	940	2,573
Prepaid expenses	(173)	(456)	(75)
	10,279	11,096	5,214
Increase (decrease) in current liabilities			
Bank advances	33,614	14,240	2,990
Accounts payable and accrued liabilities	267	15,481	5,070
Income taxes payable	371	377	171
Current portion of long-term debt	8,004	(1,630)	(4,028)
Deferred income and deposits	3,886	1,269	2,170
	46,142	29,737	6,373
	35,863	18,641	1,159

(c) Working capital deficiency is represented by:

Current liabilities			
Inter-City as reported	217,774	161,940	135,519
Canadian Homestead Oils Limited	—	9,692	6,376
	217,774	171,632	141,895
Current assets			
Inter-City as reported	143,655	124,466	112,714
Canadian Homestead Oils Limited	—	8,910	9,566
	143,655	133,376	122,280
	74,119	38,256	19,615

16. LEASE COMMITMENTS

The approximate aggregate minimum annual rentals under long-term leases excluding capital leases at December 31, 1980, are as follows:

Year	($000)
1981	2,544
1982	2,269
1983	1,652
1984	1,399
1985	1,195
subsequent years	2,218
	11,277

17. PENSION PLANS

The Company has various pension plans available to certain groups of permanent full-time employees. The Company makes contributions to the plans based on salary levels and the cost to the Company, including contributions in respect of unfunded past service benefits, was $680,000 for the year ended December 31, 1980 (1979—$549,000; 1978—$514,000). Unfunded liabilities for past service benefits at December 31, 1980 was nil for the Canadian plans and approximately $1,246,000 (U.S.) for the United States plans (1979—nil and $1,283,000 U.S., respectively) and are being funded by payments of $117,000 (U.S.) and $46,000 (U.S.) per year over periods of twenty-five and ten years, respectively. In addition, the United States plans have a deficiency of approximately $428,000 (U.S.) in the actuarily computed value of vested benefits over pension plan assets (1979—$584,000 U.S.).

18. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

	1980	1979	1978
Number of directors during the year	7	7	7
Remuneration as directors	$ 36,800	$ 35,000	$ 5,000
Number of officers during the year	13	9	7
Remuneration as officers	$955,000	$713,000	$527,000
Number of directors who were also officers	2	2	4

19. SELECTED FINANCIAL DATA

Selected financial data for the five years ended December 31, 1976 to 1980 is as follows. Amounts are in thousands of dollars except per share amounts.

	1980	1979	1978	1977	1976
Operating revenue	417,178	339,192	305,513	283,340	266,565
Net income for the year					
—continuing operations	18,106	11,976	6,953	4,707	3,620
—discontinued business and extraordinary items	236	458	356	415	229
	18,342	12,434	7,309	5,122	3,849
Basic net income per common share					
—continuing operations	$1.40	$1.37	$1.14	$0.84	$0.68
—discontinued business and extraordinary items	$0.02	$0.06	$0.07	$0.10	$0.05
	$1.42	$1.43	$1.21	$0.94	$0.73
Dividends per common share	$0.32	$0.31	$0.28	$0.27	$0.24
Total assets	502,219	421,651	387,063	350,885	332,091
Long-term obligations	111,337	119,828	120,604	74,994	87,057

Information for the years 1976 to 1979 has been restated to reflect continuing operations of the Company. Long-term obligations includes long-term debt and redeemable preference shares.

20. QUARTERLY FINANCIAL DATA (Unaudited)

Summarized quarterly financial data is as follows. Amounts are in thousands of dollars except per share amounts. Amounts for the years 1979 and 1978 have been restated to reflect continuing operations of the Company.

	3 Months Ended				Year Ended
1980	Mar. 31	June 30	Sept. 30	Dec. 31	Dec. 31
Operating revenue	116,384	82,302	83,529	134,963	417,178
Gross profit	40,557	29,391	29,524	46,265	145,737
Net income after dividends on preference shares					
—from continuing operations	6,455	1,699	856	7,504	16,514
—after discontinued business and extraordinary items	4,286	2,686	856	8,922	16,750
Basic net income per common share					
—from continuing operations	$0.82	$0.14	$0.06	$0.56	$1.40*
—after discontinued business and extraordinary items	$0.54	$0.22	$0.06	$0.66	$1.42*
1979					
Operating revenue	98,799	71,941	65,289	103,163	339,192
Gross profit	34,986	25,053	21,101	36,233	117,373
Net income (loss) after dividends on preference shares					
—from continuing operations	5,695	742	(494)	4,414	10,357
—after discontinued business and extraordinary items	6,106	1,918	(1,722)	4,513	10,815
Basic net income (loss) per common share					
—from continuing operations	$0.80	$0.10	($0.07)	$0.54	$1.37
—after discontinued business and extraordinary items	$0.85	$0.24	($0.23)	$0.57	$1.43
1978					
Operating revenue	85,677	63,583	61,785	94,468	305,513
Gross profit	29,754	21,392	19,373	30,706	101,225
Net income (loss) after dividends on preference shares					
—from continuing operations	2,744	322	(1,123)	3,675	5,618
—after discontinued business and extraordinary items	2,855	(184)	(1,101)	4,404	5,974
Basic net income (loss) per common share					
—from continuing operations	$0.73	$0.08	($0.34)	$0.67	$1.14
—after discontinued business and extraordinary items	$0.76	($0.05)	($0.32)	$0.82	$1.21

* Net income per share by quarter does not add to the total for the year due to changes in number of common shares outstanding during the year.

21. BUSINESS SEGMENTS

The following is an analysis of certain financial information by business lines and geographical areas for the three years ended December 31, 1980, 1979 and 1978 as it relates to revenue, operating profit, identifiable assets, capital expenditures and depreciation and depletion. Information for the years 1979 and 1978 has been restated to reflect the continuing operations of the Company.

Intersegment sales are not material and are accounted for at prices comparable to normal, unaffiliated customers. Operating profit is total revenue less operating expenses which includes an allocation of corporate expenses. Identifiable assets include only those assets directly identifiable with those operations. Corporate assets consist primarily of notes receivable, employee share purchase plan loans, leasehold improvements, furniture and fixtures and deferred financing expenses.

	Operating Revenue			Operating Profit		
	1980	1979	1978	**1980**	1979	1978
	($000)	($000)	($000)	**($000)**	($000)	($000)
Exploration and Production						
—Canada	**29,792**	22,627	18,949	**17,423**	13,266	10,982
—United States	**3,335**	2,705	2,468	**1,777**	1,740	1,242
	33,127	25,332	21,417	**19,200**	15,006	12,224
Liquid Gas						
—Canada	**184,586**	150,085	144,039	**18,041**	14,886	10,692
Utilities						
—Canada	**69,197**	60,811	54,687	**5,905**	7,670	7,581
—United States	**66,339**	53,447	44,216	**2,745**	2,705	2,471
	135,536	114,258	98,903	**8,650**	10,375	10,052
Manufactured Products						
—Canada	**34,181**	28,471	23,691	**2,076**	1,280	1,325
—United States	**26,345**	21,046	17,463	**5,845**	1,772	(557)
	60,526	49,517	41,154	**7,921**	3,052	768
Interest income and other	**3,403**	—	—	**2,784**	—	—
	417,178	339,192	305,513	**56,596**	43,319	33,736

	Identifiable Assets			Capital Expenditures			Depreciation and Depletion Expense		
	1980	1979	1978	**1980**	1979	1978	**1980**	1979	1978
	($000)	($000)	($000)	**($000)**	($000)	($000)	**($000)**	($000)	($000)
Exploration and Production									
—Canada	**180,942**	43,151	39,432	**30,937**	26,478	14,932	**5,066**	4,080	3,559
—United States	**9,110**	5,890	7,005	**2,854**	763	510	**1,120**	625	915
	190,052	49,041	46,437	**33,791**	27,241	15,442	**6,186**	4,705	4,474
Liquid Gas									
—Canada	**115,798**	94,738	84,984	**18,144**	11,426	7,674	**5,537**	4,926	4,724
Utilities									
—Canada	**96,945**	80,169	78,228	**9,938**	5,623	6,590	**1,816**	1,629	1,665
—United States	**32,539**	26,034	24,075	**1,232**	1,148	700	**577**	451	334
	129,484	106,203	102,303	**11,170**	6,771	7,290	**2,393**	2,080	1,999
Manufactured Products									
—Canada	**19,714**	15,155	14,799	**540**	156	239	**224**	175	184
—United States	**14,951**	13,636	13,804	**1,340**	750	691	**341**	342	290
	34,665	28,791	28,603	**1,880**	906	930	**565**	517	474
Total Business Segments	**469,999**	278,773	262,327	**64,985**	46,344	31,336	**14,681**	12,228	11,671
Corporate Assets	**32,220**	4,724	4,219	**1,033**	460	363	**633**	143	86
Investment in Canadian Homestead	—	29,905	23,685	—	—	—	—	—	—
Assets of business discontinued in 1980	—	51,221	42,833	—	—	—	—	—	—
	502,219	364,623	333,064	**66,018**	46,804	31,699	**15,314**	12,371	11,757

22. OIL AND GAS PRODUCING ACTIVITIES

Additional information with respect to the oil and gas activities of the company is presented as follows:

(a) Capitalized Costs Aggregate capitalized costs and related accumulated depreciation and depletion at December 31, by geographic area, are:

(i) Cost

	Canada		U.S.	Others	Total
	Excluding Arctic Islands	Arctic Islands			
1980	($000)	($000)	($000)	($000)	($000)
Petroleum and natural gas rights and intangible drilling costs	135,256	30,907	13,214	130	179,507
Wellhead, gas plant and gathering systems	39,106	—	1,560	—	40,666
Other equipment	673	—	—	—	673
	175,035	30,907	14,774	130	220,846
1979					
Petroleum and natural gas rights and intangible drilling costs	38,718	—	16,929	—	55,647
Wellhead, gas plant and gathering systems	11,302	—	136	—	11,438
Other equipment	355	—	—	—	355
	50,375	—	17,065	—	67,440

(ii) Accumulated depreciation and depletion

	Canada		U.S.	Others	Total
	Excluding Arctic Islands	Arctic Islands			
1980	($000)	($000)	($000)	($000)	($000)
Petroleum and natural gas rights and intangible drilling costs	27,916	—	6,121	96	34,133
Wellhead, gas plant and gathering systems	12,857	—	597	—	13,454
Other equipment	320	—	—	—	320
	41,093	—	6,718	96	47,907
1979					
Petroleum and natural gas rights and intangible drilling costs	11,131	—	6,459	—	17,590
Wellhead, gas plant and gathering systems	3,144	—	68	—	3,212
Other equipment	165	—	—	—	165
	14,440	—	6,527	—	20,967

(b) Expenditures Costs incurred in oil and gas activities for the years ended December 31, 1980, 1979 and 1978, by geographic area, are:

	1980		1979		1978	
	Canada	U.S.	Canada	U.S.	Canada	U.S.
	($000)	($000)	($000)	($000)	($000)	($000)
Property acquisition	5,717	29	5,326	30	2,335	35
Exploration	8,011	989	8,994	134	5,468	116
Development	16,574	1,836	9,404	575	6,551	327
	30,302	2,854	23,724	739	14,354	478
Production	4,724	271	3,336	211	2,565	192
Depreciation and depletion	5,066	1,120	4,080	625	3,559	915

In addition to the above, exploration expenditures in the amount of $300,000 were incurred in the Arctic Islands in 1980.

(c) Revenues Revenues from oil and gas producing activities, net of production costs, for the years ended December 31, 1980. 1979 and 1978 by geographic area, are as follows:

	1980	1979	1978
	($000)	($000)	($000)
Canada	25,068	19,291	16,384
United States	3,064	2,494	2,276
	28,132	21,785	18,660

23. SUPPLEMENTARY INFORMATION ON OIL AND GAS ACTIVITIES (Unaudited)

(a) Proved Reserves Net quantities of proved reserves of crude oil and natural gas liquids and natural gas as evaluated by independent petroleum consultants at December 31 are as follows:

	Crude Oil and Natural Gas Liquids (000's of Bbls.)			Natural Gas (Million cu. ft.)		
	1980	1979	1978	**1980**	1979	1978
Canada (excluding Arctic Islands)						
—proved developed	**8,661**	234	158	**236,998**	70,561	69,375
—proved undeveloped	**409**	14	19	**14,413**	23,803	36,274
	9,070	248	177	**251,411**	94,364	105,649
Arctic Islands*						
—proved developed	—	—	—	—	—	—
—proved undeveloped	—	—	—	**525,800**	—	—
	—	—	—	**525,800**	—	—
United States						
—proved developed	**795**	1,813	1,001	**10,065**	12,035	1,411
—proved undeveloped	—	—	—	—	—	—
	795	1,813	1,001	**10,065**	12,035	1,411
Total						
—proved developed	**9,456**	2,047	1,159	**247,063**	82,596	70,786
—proved undeveloped	**409**	14	19	**540,213**	23,803	36,274
	9,865	2,061	1,178	**787,276**	106,399	107,060
Share of Canadian Homestead Oils Limited net proved reserves	—	3,775	3,553	—	332,916	333,377

Changes in net quantities of proved reserves for the years ended December 31, 1980 and 1979 are as follows:

	Crude Oil and Natural Gas Liquids (000's of Bbls.)		Natural Gas (Million cu. ft.)		
	Canada	U.S.	Canada		U.S.
1979			Excluding Arctic Islands	Arctic* Islands	
Proved reserves—January 1, 1979	177	1,001	105,649	—	1,411
Revisions to estimates	87	853	(8,963)	—	10,122
Extensions, discoveries and additions	10	171	4,470	—	1,205
Production	(26)	(212)	(6,792)	—	(703)
Proved reserves—December 31, 1979	248	1,813	94,364	—	12,035
1980					
Revisions to estimates	**1,189**	**(53)**	**(20,389)**	—	**251**
Purchases of minerals-in-place	**7,571**	**197**	**159,213**	**525,800**	—
Extensions, discoveries and additions	**519**	**59**	**27,701**	—	—
Production	**(457)**	**(171)**	**(9,478)**	—	**(314)**
Sales of minerals-in-place	—	**(1,050)**	—	—	**(1,907)**
Proved reserves—December 31, 1980	**9,070**	**795**	**251,411**	**525,800**	**10,065**

* Production from reserves in the Arctic Islands cannot commence until a distribution network is in place to transport the product to market. At present, there are no definite plans to establish a distribution network. These reserves are stated before taking into account the reserve to the Government of Canada of a 25% interest as proposed under the National Energy Program dated October 28, 1980.

(b) Future net revenues from proved reserves The following information has been computed in accordance with the procedures specified by the Securities and Exchange Commission in the United States. Future gross revenues are net of royalties and specific taxes imposed by governments—the petroleum and gas revenue tax in Canada and ad velorem and windfall profits taxes in the United States. Future expenditures include both production expenses and development expenditures.

In addition, the calculations are based on prices and costs in effect at the end of 1980 with no provision for increases. These procedures are designed to provide consistency among companies required to disclose this information. The assumptions made will not result in an amount representing fair market value nor do they provide the best estimate of the present value of cash flows that will be realized.

	Estimated Future Gross Revenues ($000)	Estimated Future Expenditures ($000)	Estimated Future Net Revenues ($000)	Present Value Discounted at 10% ($000)
Canada (excluding Arctic Islands*)				
—proved developed	673,778	131,717	542,061	246,335
—proved undeveloped	43,305	13,103	30,202	6,587
	717,083	144,820	572,263	252,922
United States				
—proved developed	35,459	830	34,629	18,906
—proved undeveloped	—	—	—	—
	35,459	830	34,629	18,906
Total				
—proved developed	709,237	132,547	576,690	265,241
—proved undeveloped	43,305	13,103	30,202	6,587
	752,542	145,650	606,892	271,828

* No revenues are assigned to reserves in the Arctic Islands.

Estimated future net revenues for each of the next three years are as follows:

Year	($000)
1981	35,946
1982	35,560
1983	38,564
subsequent years	496,822
	606,892

(c) Summary of oil and gas activities on the basis of reserve recognition accounting The following information is presented in accordance with the rules for Reserve Recognition Accounting (RRA) as required by the Securities and Exchange Commission in the United States. Generally, under RRA, operating results depend upon additions to proved reserves from new field discoveries and extensions and revisions to RRA valuation of reserves proved in prior years, and on costs incurred on acquisition, exploration and development activities.

This differs substantially from generally accepted accounting principles whereby the value of reserves is recognized in the financial statements only to the extent that they have been recovered and sold and acquisition, exploration and development costs are initially deferred and written off pro-rata according to associated actual production.

While historical operating results may not be ideal as indications of future results, RRA results on a year-by-year basis also have some severe disadvantages. RRA seeks to reflect events relating to exploration and production as they occur. However, a number of years may lapse between the time exploration and development costs are incurred and when the economic results of those expenditures become known. Costs incurred in one year may lead to discoveries in later years. Also, estimates of proved reserves and their valuation can change significantly. Estimates of proved reserves are inherently imprecise, particularly for newly discovered reserves, even though they are based on reasonable judgements and assessments. Subsequent development and production will necessitate revisions to present estimates. Further, the calculations are prepared on the basis of current selling prices and costs and a prescribed discount rate. Future RRA valuations will reflect prices and costs in effect at that time which management expects to be higher than current prices and costs.

For these reasons, the RRA results on a year-by-year basis should be reviewed with considerable caution. Management believes that a meaningful evaluation of RRA results can only be made in future years when data will be available to analyze the results of activities over a number of years.

The following information excludes amounts attributable to reserves in the Arctic Islands:

	1980 ($000)	1979 ($000)
Additions and revisions to estimated proved oil and gas reserves		
—Additions to estimated proved reserves, gross	31,793	4,827
—Acquisition of Canadian Homestead Oils Limited	233,673	—
—Revisions to estimates of reserve proved in prior years		
—changes in prices	2,653	31,251
—re-evaluations	(8,140)	(5,072)
—accretion of discount	8,428	5,846
	268,407	36,852
Evaluated acquisition, exploration, development and production costs		
—Costs incurred	38,662	7,032
—Acquisition of Canadian Homestead Oils Limited	57,761	—
—Present value of estimated future development and production costs applicable to additions	53,324	842
	149,747	7,874
Additions and revisions to proved reserves over evaluated costs	118,660	28,978
Provision for income taxes	55,405	10,557
Results of oil and gas producing activities on the basis of reserve recognition accounting	63,255	18,421

(d) Changes in present value of estimated future net revenues from oil and gas reserves.

	1980 ($000)	1979 ($000)
Increases		
Additions and revisions	268,407	36,852
Less—related estimated future development and production costs	53,324	842
	215,083	36,010
Decreases		
Sales of oil and gas	32,496	11,730
Less—production costs	4,959	1,538
	27,537	10,192
Net increase	187,546	25,818
Balance—beginning of year	84,282	58,464
Balance—end of year	271,828	84,282

24. SUPPLEMENTARY INFORMATION ON INFLATION AND CHANGING PRICES (Unaudited)

The Financial Accounting Standards Board in the United States has recommended that supplementary information be presented in financial statements in an attempt to measure the impact of inflation on the Company's operations. This information is included in the Company's annual report on Form 10-K.

INTER-CITY GAS CORPORATION
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Litho'd in Canada